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THE MANAGEMENT REVIEW

SPECIAL ECONOMIC MOBILIZATION ISSUE

What Management Is Doing to Vitalize the Economy



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INTRODUCTION

Lawrence A. Appley

President, American Management Association

THIS special issue of THE MANAGEMENT REVIEW, which is devoted entirely to AMA's recent Economic Mobilization Conference, has—like the conference itself—one basic purpose: To acquaint all in management with the practices of some of our leading companies as they relate to today's economic situation.

This function of keeping management currently informed is in the basic tradition of the AMA, and it is an important one. For many of us are so busy doing our jobs that we have little time to tell one another what we are accomplishing. Yet the results of management's efforts to vitalize the economy should be made known. For this knowledge can give us nothing but confidence.

It is not our purpose to develop any formulas for success or to advance any one course of action. This is not the AMA's function. It issues no propaganda; it participates in no legislation; it takes part in no public issue. Its purpose is to make known what others in management are doing, and how they are doing it. With this knowledge, each manager can decide for himself what is most practical and applicable to his company's individual situation.

In preparing for this conference, we wrote to many of the presidents of our member companies, asking them about their business plans and expectations for the months ahead. More than 700 companies, employing over five million people, responded. Of these, approximately 50 per cent reported that they expect their sales and capital investments to equal or exceed those of last year. Fully 43 per cent expect to make equal or greater profits! Further, the overwhelming majority intend to spend more on advertising, sales promotion, and direct selling in 1958 than last year.

The same spirit of optimism and courage prevailed during the two days of the Economic Mobilization Conference, at which many leading industrialists discussed their companies' plans for growth and expansion—plans clearly predicated upon the continuing growth of our economy. It was deeply significant and inspiring that the President and the Vice President of the United States and the Secretary of Commerce participated. Following the concluding dinner at which the President spoke, some 2,600 executives left the room with renewed determination to *make* the future rather than wait for it.

THE MANAGEMENT REVIEW

SPECIAL ECONOMIC MOBILIZATION ISSUE

What Management Is Doing to Vitalize the Economy

- 4 ADDRESS BY THE PRESIDENT OF THE UNITED STATES
- 14 REMARKS BY THE VICE PRESIDENT OF THE UNITED STATES
- 20 ADDRESS BY THE SECRETARY OF COMMERCE

WHAT MANAGEMENT IS DOING

- 25 ELMER L. LINDSETH—A "Do" List for Management Action
- 28 HARRY A. BULLIS—General Mills, Inc.
- 35 ROBERT S. INGERSOLL—Borg-Warner Corporation
- 42 THOMAS B. MCCABE—Scott Paper Company
- 49 CLOUD WAMPLER—Carrier Corporation
- 56 THOMAS J. WATSON, JR.—International Business
Machines Corp.
- 63 RALPH J. CORDINER—General Electric Co.
- 71 FREDERICK R. KAPPEL—American Telephone & Telegraph Co.
- 76 WILLIAM C. DECKER—Corning Glass Works
- 79 FRANKLIN J. LUNDING—Jewel Tea Co., Inc.
- 84 ELISHA GRAY II—Whirlpool Corporation
- 90 CHARLES H. PERCY—Bell & Howell Co.

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Address by the President
of the United States

"The question that faces us today is not whether America is going to continue to grow and make progress, but how quickly our economy is going to resume its full and healthy advance... It is at this point that the wisdom, the venturesomeness, the resourcefulness of our business leadership are put to the test."

DWIGHT D. EISENHOWER
President of the United States

I FIND MY POSITION here tonight a refreshing and somewhat novel one.

For some months now we in the government have spent a large part of our waking hours acting on proposals by private citizens on what the government could do about the business downturn.

Now this group of private business leaders has invited some of us from government to suggest to businessmen what they could be doing about the downturn. Needless to say, this is indeed a turning of the tables.

I begin by reminding ourselves of one simple, inescapable fact: America is not going to stand still. America is going to grow—and grow and grow.

The question that faces us today is not whether America is going to continue to grow and make progress, but how quickly our economy is going to resume its full and healthy advance.

My answer tonight is this: Reports from the country strongly indicate that the economic decline of recent months is slowing down. Not all our economic troubles are over by any means. But there is a change in the making. That it will prove to be a change for the better, I have no doubt.

What America must do now is to gather all its forces for a new offensive to promote an early upturn and renewed economic growth that is both vigorous and sound. No single person, no single group, however wise and well-informed, can name the day or the week when that upturn will begin. But there is reason to believe that much of the adjustment which a free economy experiences from time to time has already occurred. From this point on, the conscious determination of the American people—together with their resultant actions—can make the difference in lifting the economy to higher and higher levels.

It is at this point that the wisdom, the venturesomeness, the resourcefulness of our business leadership are put to the test.

We have about "caught our breath."

There is nothing wrong with our oxygen supply.

Now, what do we do to get climbing together again?

Now, the emphasis of this conference is on private action—and rightly so. But we all know that the job of recovery is a joint effort in which business leaders, labor leaders, farm leaders, professional leaders, consumers, together with the government, must all play a part. I could not in good conscience come here tonight and call on you as businessmen to do your full part unless I felt confident that the government was fully alert to its own responsibility.

Government cannot guarantee prosperity, but it has a continuing responsibility in times like these to use all its powers to help counteract recession. It has a duty to alleviate human hardship and protect our human resources, to help promote an upturn in production and employment, and to help build a solid foundation for long-term growth. Now all this it should seek to do in a way that strengthens the vitality of our private enterprise system—and that includes safeguarding the integrity of our currency.

GOVERNMENT ACTIONS

Carrying out this responsibility, your government has acted over a period of many months in many ways to counter the recession and to foster recovery. Let me cite the main items in this record of action.

First, the independent Federal Reserve System has increased the

availability of credit and has helped reduce its cost to borrowers.

Second, a series of actions starting last August has been taken to promote private housing construction and to step up activity in such fields as urban renewal and college housing.

Third, measures have been taken toward accelerating approved public construction, such as Post Office modernization, water resources projects, hospitals, and highways. The accent has been on the speeding up of authorized work on needed facilities. I am determined not to get bogged down in a slow-starting, emergency public works program; that would provide a minimum of jobs now and a maximum of budgetary headaches in the years ahead.

One truth, then, we should always hold before our eyes: Reckless expenditure in the name of economic stimulation is both wrong and self-defeating.

Fourth, steps have been taken to accelerate procurement for needed defense and civilian requirements.

Fifth, recommendations have been made to Congress to deal with special problems. An example is my proposal of March 25th to provide temporary unemployment insurance to individuals who have exhausted their regular benefits. This proposal goes directly to the heart of the problem of relieving human hardship arising from the recession. There can be arguments about the details, but there is no arguing about the personal anxiety, the hardship that this proposal will alleviate. We need its prompt enactment by the Congress.

DECISIONS TO BE MADE

There is another area of policy that has aroused intense interest, both in and out of government. This is taxation.

Everyone in this country is, I know, concerned about taxation. We would like to achieve improvements in the tax structure. We would like to assure maximum equity in the tax burden. We would like to achieve further simplification. We would like a tax structure which least interferes with sound economic growth.

The timing of such changes always poses problems. During periods of high business activity and high employment there is concern with inflationary aspects. In a time like the present, with its rising government expenditures, we are particularly sensitive

to the tax burdens, but there is likewise great concern with the future impact of increasing current deficits.

After consultation with Congressional leaders, certain decisions will shortly be taken. They will be made in the light of the latest information regarding the economic situation and with a full evaluation of the probable short and long term consequences. And, one other thought: This matter of taxation is so important to the American people that by no means should it be made the subject of political competition.

While we are talking of government activity, we cannot forget defense reorganization, mutual aid, and world trade. Through our security establishment, we help produce the confidence essential to prosperity at home—the confidence that will stimulate recovery. Through our mutual aid program we help other free-world nations develop their strength in order to maintain their defense establishments against Communist threats, and in order to bring the economic improvement that spells hope for their people. And through expanding world trade we increase jobs at home and economic strength here and abroad. In these three vital areas we need effective and decisive Congressional action.

WHAT BUSINESS IS DOING

Now I want to turn to the field of private business action.

I have been gratified by the underlying purpose and accomplishments of this conference. Business leaders have been reporting precisely what they and their industries are doing in creating new products and designs, reducing costs, modernizing plants and facilities, and merchandising more effectively. All this will create new and better job opportunities. These reports show that American businessmen are engaged more and more in the best kind of creative competition: They are investing their resources, their ambitions, their imaginations and themselves to build stronger positions for their companies. Thus they will help build a stronger America and a stronger free world.

They do this because they are deeply convinced of this plain truth about American life:

Achievement and progress cannot be created *for* our people; they can only be created *by* our people.

Americans would have it no other way. Our future is in our own hands. Our prospects are limited only by our vision and by our exertions.

Our economy has always moved ahead to set new records after every period of pause or recession in our history.

It will do so again.

One salient fact should be clear. We can never pep-talk our way to prosperity. No one is proposing that we try. We are simply suggesting that businesses do what is clearly in their *own* interest. We are suggesting, further, that it can be done in the time-honored American way of self-reliance and self-starting initiative. Our economy has grown strong because our people have made jobs for each other and have not relied on the government to try to do it for them.

What is our economy anyway?

Emphatically our economy is *not* the Federal Reserve System, or the Treasury, or the Congress, or the White House.

This nation of 43 million families, 174 million people—what we all think and what we do—that is our economy.

Our economy is the result of millions of decisions we all make every day about producing, earning, saving, investing and spending. Both our individual prosperity, and our nation's prosperity, rest directly on the decisions all of us are making now.

GUIDES FOR ACTION

This conference has been concerned with guides for such decisions by business. Let us look at a few.

The first is this: The best hope of continued progress and growth is for business to keep offering the American consumer something better. This means to create better values.

Creating better values, in turn, calls for vigor and imagination in forging ahead with new and improved product developments, and in product and market research.

In a free economy, people do not always buy just because they have money. Theirs is the sovereign right of choice. One of the hopeful developments of recent years is that new knowledge is rapidly being accumulated about the aspirations and wants and motivations of our people. Many businesses are extending their

research activities further into these fields in order better to find out what people want, and how products can better be adapted to their customers' needs. Thus business can serve us all the better. These vital activities should be intensified.

One great challenge that our economy has always faced, and has always met superbly well, is this: to produce the most good, as well as the most goods for the benefit of the people.

INVENTORY AND INVESTMENT

The second guide to business action has to do with inventories.

We have reports of some manufacturers and distributors who are going along on a hand-to-mouth inventory basis.

One businessman told me recently that this kind of timidity had been very bad business for him. He was convinced that it had caused him to lose sales. Another told me that his company's policy, back in 1949, of letting inventories fall below normal requirements left it unable to keep up with its competitors when the upswing came.

The guide in this inventory question seems a common-sense one: Buy to normal requirements. Is that not good business? It seems to us it is.

Closely related is a third problem, that of investment in plant and equipment.

Now, no one is going to urge a business with ample capacity to add more facilities just because it might be good for the economy as a whole.

On the other hand, very few of the 4,300,000 individual businesses in this country feel that they do not need *some* modernization or improvement. First they expect to create better values for better business today; likewise, they want to get ready to win their full share of the unprecedented markets that most certainly lie ahead. Many of these companies are doing these things now, for the simple reason that now is a good time to get them done.

What time could be better than the present for making these outlays? Money and materials are more readily available today, and in many cases on better terms, than they have been for some time—or than they may be for some time.

As I have indicated, the government is following this simple

rule: for purchases and investments which must be made anyway, acting now makes sense for the government, and it gives the economy a lift when it's most helpful. I suggest that there are numerous opportunities for private business profitably to adapt the same principle to its operations.

WAGES AND PRICES

My fourth comment is on prices.

No feature of America's economic life has been more at the heart of our rapidly rising and widely shared levels of living than the daring of this nation's businessmen in pricing for volume and taking their chances on profits. It is no accident that this policy has characterized our most profitable enterprises. If we are to maintain the vigor and vitality of our free economy, this drive for the widest possible markets must continue. A price policy designed to bring increasing volume should be nothing short of an article of faith for every businessman.

My fifth observation is this: the economic recovery and growth we bring about must take the form, not of higher costs and prices, but of more production and more jobs.

Let's be realistic. If as earners we obtain such large increases in our incomes each year that the costs of production move always upward, then as customers we will find only higher price tags in the stores.

The American people believe in good wages, both in private and public employment. Good wages reward effort and build markets. But the American people are going to be looking over the shoulders of those sitting at every bargaining table; they want to see whether the wage settlement and subsequent price decisions are consistent with a stable dollar, or whether they mean another dismal sequence of ever-rising costs and prices.

Inequities in the wage structure must, of course, be adjusted. But the consumers are not going to be satisfied with less and less value per dollar of price, which is the inevitable result of less and less production per dollar of cost. I am quite certain that, if businessmen and labor union leaders forget these truths, the consumer will remind them in ways that are clear and painful. And in the process the whole economy will suffer. These are not

theoretical considerations. They have a direct bearing on specific industries today.

Perhaps this is a good time to ask ourselves whether some dangerous rigidity of thought and policy has not been settling in on us in recent years.

NOMINATIONS FOR OBLIVION

There used to be a periodical feature entitled, "We nominate for oblivion . . ."

Let me suggest a few ideas that I would like to nominate for oblivion:

- One, the idea that the consumer is not price-conscious any more;
- Another, the notion that without paying the piper in higher prices, we can as a nation overpay ourselves for what we produce;
- Next, the idea that management can be lax about costs without pricing its product, not only out of foreign markets, but out of the American market as well;
- Again, the idea that large annual wage increases can be regarded as a matter of course;
- And again, the delusion that more rigid farm controls and larger surpluses to dispose of at the taxpayer's expense can lead to a prosperous farm economy;
- Another, the notion that we can export without importing;
- And finally, we must disabuse ourselves of the thought that a competitive enterprise economy can be free of all loss, failure and disappointment, and that government can take all the bumps out of the road of business.

All these and similar illusions are threats to that resiliency that enables private enterprise to adjust itself to new conditions. More than that, they are threats to recovery and to our capacity to achieve a vigorous and orderly economic growth. I once more nominate the whole kit and kaboodle of them for oblivion.

REASONS FOR CONFIDENCE

Three years ago last October, I discussed the state of the economy in an address at the Forrestal Memorial Dinner in Washington.

As you will recall, that was also a period of some uncertainty. Cross-currents were evident. Unemployment had risen. Output was below that of the previous year. Dire predictions filled the air.

On that occasion, I urged that we take the long view, venturing the opinion that ours could be a \$500 billion economy within a decade, if we were wise in our policies. I meant to be conservative: It is clear now that I was.

We see all around us evidence that Americans share this confidence. It rests upon solid facts like these:

- Our population is burgeoning at the rate of 3 million Americans a year. This is equivalent to adding a Kentucky to the Union every twelve months.
- Even in this recession year, business is spending more than \$30 billion to maintain productive equipment and to expand capacity. In the last five years, these outlays have reached the staggering sum of more than \$150 billion.
- State and local governments are spending nearly \$10 billion each year for new schools, better streets, and other facilities that the people want and need.
- The wonders of recent years—nuclear energy, miracle drugs, synthetics, electronics—will be dwarfed by new wonders to come.
- Today, 3 million of our young people are in colleges and universities, preparing themselves for the opportunities of tomorrow.
- After 50 years of indecision, the great St. Lawrence Seaway project is moving toward completion. In the field of aviation, plans are well advanced to receive the jet age.

In short, the future is bursting with vitality and promise: It is welcomed by the swiftly rising aspirations of our people.

MEETING THE CHALLENGE

The question, then, is going to be—not one of surmounting our problems—but one of rising to our opportunities. These are fast-moving times. The faint-hearted and the doubters who hang back today are apt tomorrow to be trampled in the rush of progress. It

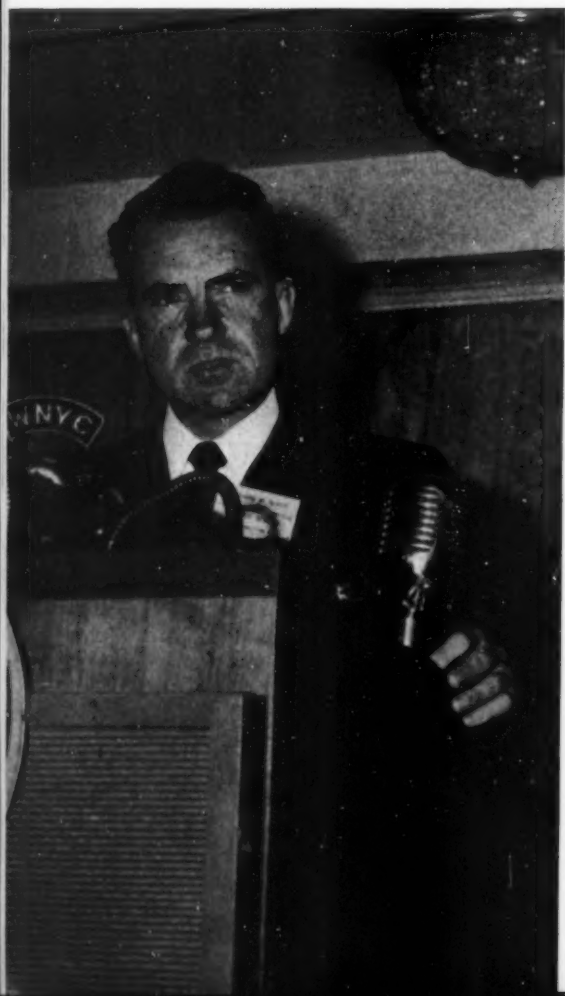
has been the tough-minded optimists who have always been right in American history. It is true in our time.

The economy of America has given us the strength to make our homes secure against those who would attack us and destroy our way of life. It has given us the means to work unceasingly for a just and lasting peace among the nations of the world.

All this we can keep and strengthen by our faith and by our exertions. May we so conduct ourselves today that, when we look back upon this time, we can say: We met the test.



"There is confidence in the American business community, and among government officials as well, that the economy will move upward; that the forces of growth are already beginning to assert themselves again."



Remarks by the Vice President of the United States

RICHARD M. NIXON

Vice President of the United States

NO QUESTION has been put to me more frequently in recent weeks than the one that concerns all of us here: What is going to happen to the United States economy in the months just ahead? In the course of my recent Latin American trip, particularly, I had occasion to say over and over again what I will say now:

1. That there is nothing basically wrong with the American economy.
2. That there will be no depression in the United States.
3. That there is confidence in the American business community, and among government officials as well, that our economy will move upward; that the forces of growth are already beginning to assert themselves again.

EFFECTS ON INTERNATIONAL RELATIONS

Another, somewhat related, question that keeps coming up is this: How much more potent would Communist propaganda become if American business could not pull the American economy up to a growth level soon?

We must recognize that this question touches upon our relationships with many countries throughout the world. It affects our relationship with Latin America, with Asia, with Africa and all of the newly-developing or underdeveloped countries of the world. For there is one thing of which you can be certain, and that is that people in these countries are determined to have a better way of life.

The old times when they could be satisfied with their lot of terrible poverty—as compared with a very few of great wealth—are gone forever.

The Communists are telling them that the quickest way, the surest way to economic progress for a nation—the kind of progress that helps the many as well as the few—is through a Communist system or a Socialist system of the Communist variety.

And, of course, what we say—and what many of our friends in other countries say—is that the better way to get this kind of progress is through a system in which individual enterprise operates in a climate of political freedom such as we have in the United States.

When you come right down to it, then, what happens in the United States will have a dramatic effect on our foreign policy as well as on our own domestic economy. And that is why, purely apart from the economic effect in the United States, the national security interests of the country demand that we do everything that we can, in our individual and governmental capacities, to see that our system works, and that recovery is effected.

WHAT ABOUT GOVERNMENT ACTION?

Another question that has widespread currency today relates to government action to stimulate the upturn. Specifically, I have been asked how I would feel about a tax cut as compared with large expenditures for public works as a device to stimulate economic growth.

Either of these actions would have the effect of increasing the deficit. But if it came down to a choice between the two, I feel that a tax cut would be preferable to massive expenditures for public works.

Public works were tried and found wanting during the depression

of the 1930's. There were still 10,000,000 unemployed in 1940, as you may recall.

Moreover, a massive public works program—as distinguished from accelerating expenditures in those areas where the money could be spent now or in the immediate future—would not begin to make itself felt until the economy had begun to recover on its own. And at that point it would simply be an additional inflationary force.

Most important, I believe that, as we go through an economic downturn such as the present one, we must avoid any action that would change the basic character of our economy and the relationship of the government to private enterprise.

When you go into new public works programs of the massive type, the inevitable result is to make government bigger in the end, and to make private enterprise small.

In any case, I feel that any new expenditure of the Federal Government should have to meet two tests in order to be approved by the Administration and by the American people.

One—that it will be helpful in the present situation in putting in additional money and creating additional jobs.

And two—that it is the kind of action that government should properly be engaged in. We should not allow the present situation to be used as an excuse for government getting into the kind of enterprise that it should not be in, in the first place.

If we should come to the point where it is felt that a tax cut would be proper, there will be tremendous pressures—particularly in an election year—to have the wrong kind of a tax cut. I refer to a tax cut which would be almost exclusively designed to put money in the hands of consumers and purchasers, and which might provide a very brief stimulus to the economy but no lasting effect insofar as growth is concerned. I personally think this would be a mistake.

If any tax cut is to be made, I personally feel that it should put money in the hands of job creators and investors as well as consumers. It must be designed primarily to contribute to the forces of growth in the economy.

This is a matter on which the Treasury Department has been working for months. And I will not comment further, except to

say that again, as we consider our present situation, our major aim must be not to allow our present troubles to force us into doing things which are unwise. We must use our present troubles, if we can, to make the economy come out stronger than when it went in.

OUTLOOK FOR LABOR LEGISLATION

One major economic problem that faces us all today concerns the wage-price spiral, created to a large extent by wage increases which have not been based on productivity. In this connection, I have been asked: What, if anything, can we expect Congress to do in the field of labor relations this year?

As we all know, hearings are currently being held in Washington by a subcommittee of the Labor Committee, though it has been predicted that no substantial action will be taken in the labor field because it is an election year.

My own estimate is that there will be some moderate action by Congress this year on the labor-management field. It will be directed at some of the real abuses that have been coming to light—abuses regarding the use of union funds, abuses of union democracy and of power in the hands of some union officials.

Generally speaking, we are fortunate in that we do have a strong free trade-union movement in the United States. One has only to travel to some countries that do not have a free trade-union movement to realize how fortunate it is that our union leaders take the position they do on the great issue of freedom versus slavery, political and otherwise.

For example, the American trade-union movement has moved effectively in virtually all of its various segments against Communist domination. Whether or not we agree with the political views held by union leaders, on this great issue the American trade-union movement has rendered a real service, I think, to the cause of freedom.

The other side of the coin is that, because this movement has grown rapidly over a short period of time, abuses have inevitably grown up. Some labor leaders are more responsible than others. But where irresponsibility does exist, there must also exist some satisfactory means of controlling that irresponsibility.

I personally believe Congressional action is needed this year,

in the interests of the long-term growth of our economy and of getting the proper balance between labor and management—between big labor and big management as well as big labor and small management.

And I believe that, as Congress considers this labor-management legislation in these next few months, there is a better than even chance that some action will be taken—action which will not be punitive, but action which will be designed to help keep the proper balance of forces within our free-enterprise economy.

CONCLUSION

On my recent trip I saw many signs saying "Go home," in various languages. There were actions which also bore out the sentiment of the citizens. But perhaps most vivid in my memory were the references to the United States as a nation of reactionary, heartless monopolists. This referred, of course, specifically to our business. And may I say, today, that as I participated at this conference for businessmen, at which they are examining the problems that confront the American economy—and their own responsibilities to meet them as managers and citizens—I have been very proud of the nation in which we live and of the system which has produced business statesmanship of this kind.

When I see this kind of leadership, this sense of responsibility—which I know can be duplicated a hundredfold all over the United States—I am confident about the future of the American economy. I am confident not only because of what I think government can do, and government will do, but confident because the future of our economy is in such good hands.



"Businessmen...are the key to revival and future expansion. Their information, their attitudes, their decisions, their efforts, and their confidence will be among the most potent factors in this year's economic picture."

American Business and the Economy

■ SINCLAIR WEEKS

Secretary of Commerce

THIS ECONOMIC MOBILIZATION CONFERENCE sponsored by the American Management Association is needed by America right now. It will make known to businessmen everywhere and to the general public the fact that private management is mobilizing its vast resources to improve the current economic situation and to



continue economic growth. It should have a significant impact for good upon sales, production and jobs. I am sure that confidence generated here will be reflected to the nation.

This conference demonstrates private enterprise at its best, with emphasis on both words—private and enterprise. I congratulate you because, instead of sitting back or pleading with Uncle Sam to run everything, private management itself will describe what is being done by business to encourage increased business activity. It is an inspiring “do-it-yourself” project in healthy revival.

Your meeting is in keeping with the traditional American outlook on life. All through our history, optimism has been a chief characteristic of Americans. The fact that our economy has grown to first place in the world is proof of the foresight of optimists.

THE PLACE OF GOVERNMENT

Confidence is a basic ingredient of economic health. But confidence requires facts for nourishment. Faith without facts could be merely wishful thinking. Therefore, this conference will render a great service to business and to the public by presenting the whole truth about the economic situation—both the good and the bad—and by looking ahead with the same realism.

For when the complete picture of our economic foundation is examined and its growth potential is appreciated, faith in our nation's future waxes strong.

As I said before, this is not a conference in which government tells business what it ought to do. This is a conference in which businessmen, themselves, tell one another what can be done to increase the pace of recovery.

Government, of course, can do much to create and maintain a climate in which private initiative can function successfully. On the other hand, experience has shown that government also can disturb business, hamper business, and even wreck business.

Government can scare customers by panic propaganda and by reckless policy and legislation. Government can pile up future tax burdens through excessive deficit financing. Government can blow an icy wind that overnight freezes public confidence.

This Administration intends that government shall be a stepping-stone and not a stumbling block. I assure you it will do everything possible to build a firm foundation for confidence.

However, irrespective of government's role in the economy, the star is business. For the chief business of private industry is to make private industry succeed. Therefore, businessmen, representing more than four million independent enterprises, are the key to revival and future expansion. Their information, their attitudes, their decisions, their efforts, and their confidence will be among the most potent factors in this year's economic picture.

Their progress will bolster the job security of the nearly 63 million workers now employed and will create additional job opportunities. Businessmen are the nation's chief hope for steady, sound recovery.

GREAT EXPECTATIONS

Our free enterprise system is the most powerful economic system on earth. Our national product is more than double that of our nearest competitor, the Soviet Union. The prospect for great growth in the coming years is clear to realists with vision. Among plus factors forecasting progress are increased population, expanded education, research, world trade and other generators of markets.

Here are some statistics which I have gathered that project great growth. They anticipate a market which should inspire the confidence of every businessman.

I have set them up on a ten-year series: 1948—now—and 1968.

	<u>1948</u>	<u>Now</u>	<u>1968</u>
Population (millions)	146.6	173.0	205.5
Households (millions)	40.5	50.4	60.3
Employment (civilians and armed forces) (millions) *Seasonally adjusted	60.8	*66.7	80.5
Gross national product (billions of 1957 dollars)	\$ 314	\$ 416	\$ 600
Personal income (billions of 1957 dollars)	\$ 244	\$ 334	\$ 475
Personal income per capita (1957 dollars)	\$1,665	\$1,931	\$2,310

Sure, we see some weaknesses now—and with the help of business, we are getting rid of them. But, with equally sharp eyes, we also can see our nation's great strength and its great future possibilities.

I should like to hand on to you some advice from a Vermont Yankee, who in his day faced situations before which the faint-hearted quailed. I speak of Ethan Allen of Revolutionary War fame. Certain fearful members of the Continental Congress suggested that the guns and supplies which Allen had captured at Fort Ticonderoga be handed back to the British.

This was too much for this stouthearted New Englander. He blew up in a combined burst of anger and sublime faith. He wrote to Congress:

I wish to God America would at this critical juncture exert herself . . . She might rise on eagle wings and mount up to glory, freedom and immortal honor if she did but know her strength.

Some of that faith rubbed off on Congress and it sent the guns to George Washington at Boston.

This mobilization conference, aflame with the spirit of Ethan Allen, can do much to inspire confidence all over this land. It can help America to know her great strength. It can stimulate businessmen at this critical juncture to use the thrust and vigor of private enterprise in building a better future for themselves and all other Americans.





Above: Vice President Nixon, with members of the panel of which he was chairman. Left to right: Kappel, Decker, Lindseth, Gray, the Vice President, Lunding, Percy, Cordiner.



**AMA ECONOMIC
MOBILIZATION
CONFERENCE
May 19-20, 1958**

Left: AMA President Lawrence A. Appley and Vice President Nixon stand by as the President acknowledges his reception.



Above: AMA board chairman Don Mitchell listens as the President and Field Marshal Viscount Montgomery renew an old friendship.



Above: The President and Mr. Appley exchange a few words at the conference.

Below: (left): Robert C. Tait, associate chairman, who summed up the first day's panel discussion. (Right): William C. Stolk, chairman, and panel members Wampler, Ingersoll, Bullis, McCabe, and Watson. Far right, J. Erik Jonsson, AMA Vice President in charge of the General Management Division and general chairman of the conference.



A "DO" LIST FOR MANAGEMENT ACTION

Elmer L. Lindseth

President, The Cleveland Electric Illuminating Co.

TO CONDENSE into a single capsule all the sound ideas presented by these business leaders, and to capture their enthusiasm, is obviously a difficult task. But it is possible to put the major points into a "Do" list for management. The whole list may not apply to every company, but most of the items apply to most companies, and every one of them applies to some companies.

First, let us set the background with three simple items. First, this is a highly selective or limited recession. It is largely in the field of consumer durables and collaterals, with spill-over into transportation, basic metals, and materials.

Second, this is a big country with a lot of future. Secretary Weeks, with his graphic statistics, illustrated how dynamic that future can really be.

Third, the function of government in this recession is not so much one of direct action as one of creating a proper climate in which business can take the action. The job of getting America out of this recession belongs to businessmen. What are we going to do about it?

This "Do" list is the consensus of the industry spokesmen whose presentations follow. Their ideas comprise an effective guide to management action.

1. Let's look over our products and services. Let's produce better values. Let's build "sell" into every product. Let's design what the customer wants and needs. Let's avoid gadgetry.

The customer is really king, again. He has the means to buy and he will buy if the product is good.

2. Let's look to the costs of every product and service, direct and indirect. Let's eliminate every element of waste to reduce costs that don't contribute to value. We may want to use cost reduction committees, but I think it is far better to get everybody

into the act who can contribute. But one note of caution: Remember, we can spend too little.

3. Let's all sell smarter and harder. Let's get back to shoe-leather selling, reinforce our salesmen's efforts with appropriate promotion, advertising, training, market research. Let's improve our sales efficiency and be more creative.

4. Let's reduce prices, where we can, to build volume. I realize that we must hold them in some cases and for some products. But where we are offering real bargains we should let it be known to the consumer.

5. The importance of continuing research, development and engineering must not be overlooked. The papers that follow suggest that management is well aware of this. For many are actually stepping up their research and development so as to bring new products to market. Some are building whole new research laboratories. Many are increasing their investments in research and development and engineering.

6. We must continue to recognize the importance of capital expenditures. These *are* being maintained and even expanded where they are needed, and some of the experts are changing the emphasis from wholly new plants to better equipment.

We may have a vast productive plant. But much of that plant today, as our industry spokesmen emphasized, is obsolete and ineffective. Today's financial terms are better than they have been for several years and we ought to take advantage of them.

7. Let's look to the organization, the team—both management and rank and file—and see how well it is fitted to do the job. Let's look to the structuring of organization as well as to the manning of organization. Let us examine the incentives we have been providing our people for improved productivity and production, and let's not ignore recruiting for the future.

8. Let's get maximum participation, and understanding of the results we are trying to bring about. This means giving both management and rank and file the economic facts of life. Let's enlist their confidence and support—develop understanding that productivity is the key to the future. Let's remember that we *produce* a standard of living. We don't buy it.

9. We must use all the skills of good management at our

command and use them better—our controls, our planning, our analyses, our sales forecasting and diagnoses, and all the other tools of effective decision-making and action. Let us not sacrifice long-range planning and thinking for short-haul expediencies.

10. Let's develop a better understanding, at every level of business and society, that higher wages must be based on higher productivity. Hiking wages faster than productivity is simply a way to live beyond our means, and will have the same consequences.

11. Let's try to develop greater literacy as to the role of government, particularly in economic matters. Let's avoid unwholesome government stimulants and especially massive public works which would be too slow in getting under way to help now. The role of government is principally to create a proper climate in which business can operate.

12. My last point: Let's do something about it. Let's do things. Let's not just wait for things to happen. Too, let's keep our actions on a high moral and ethical basis. Business has a great responsibility in these critical times. After all, this is no "minor recession" for the guy out of a job, even though he is a small percentage of the work force. It's a 100 per cent depression for him.

Now, then, let's put our "Do" lists to work. Starting tomorrow morning, let's start doing things.



"We hope that government will take effective, prompt action. However, the burden of stimulating increased consumer expenditures will still be upon business."

GENERAL MILLS

■ Harry A. Bullis
Chairman of the Board
General Mills, Inc.



IN THE CURRENT PERIOD of business contraction, the food industry is optimistic, because consumers have maintained their habits of eating and have not downgraded their purchases.

General Mills, as a partner with the farmer and other processing enterprises in serving the food needs of the United States, is focusing its attention directly upon certain areas that we believe must command the dedicated efforts of all American business. It is our conviction that the remedies that can lead to a new surge of economic growth and development include (1) bold, venturesome capital commitments and (2) greater consumer persuasion and motivation. Now, more than ever, is the time for management to shoulder anew its responsibility for American growth, and for management to do the sweating, the planning, and the risking to get the consumer dollars flowing faster into the channels of trade.

Briefly, for the fiscal year which ends May 31, 1958, the capital expenditures of General Mills will run above 16 million dollars,

fully as high as the previous year. We have increased our capacity to produce cereals and package foods at four plants across the country. We have built a new animal feed plant. We have added to our chemical plant and to our special commodities plant. We have completed a new headquarters office building.

Work is already under way on further enlargement of our package foods capacity, on another new feed mill, on a plant for pet food, and a plant for refrigerated ready-to-bake foods. We are enlarging bulk flour storage, making substantial additions to our shipping facilities, enlarging our research facilities, and providing new manufacturing equipment in existing plants.

For the coming fiscal year beginning June 1, we will carry forward these and other projects. Our plans for capital investment will involve a total amount substantially larger than our expenditures during the current year. It may approximate 15 per cent of our company's net worth.

CONSUMER EXPENDITURES

On the consumer front, General Mills is really stepping things up. During this fiscal year, ending May 31, 1958, we have introduced twelve new package foods, and there has been no economic recession insofar as our advertising and promotion is concerned. Our expenditures for advertising media were at an all-time high of well over 24 million dollars, and in the year ahead we plan to spend more. We are budgeting at a rate well above that of the current year, and, when we add the money we hope to spend on consumer promotions, the total is by far the largest in the history of General Mills. We have accelerated our merchandising programs, so that we will sell as we have never sold before.

This is significant, and perhaps in a sense typical, of the manner in which the food industry is trying to create new consumer markets and to upgrade existing markets. What General Mills is doing will be repeated elsewhere, in scores of food companies, large and small.

Business and consumers, working together, can get us started on the uptrend again. This is the General Mills thesis. We expect government to do its part to provide some incentives for consumers and businesses, and to remove any obstacles to healthy economic recovery that may have accumulated along the way. Reforms of

archaic legislative strait jackets, taxes, and depreciation allowances are among the means by which the government can properly be of assistance. As a partner in free enterprise, government needs more of the philosophy of constructive change that so permeates the American economy.

However, business and industrial management is not looking for some magic spell from Washington to solve our present problems. We must get rid of the thought that the government is paying the bill. We know we have to get five million people back to work. And we can do that if all of us in our own companies exercise forward thinking and plan our work intelligently to make the most efficient use of our invested capital. Now is the time when industry can usefully plan ahead and secure greater productivity from its resources. We must eliminate any unnecessary expenses, frills, or corporate luxuries.

ECONOMIC AND SOCIAL CHANGES

This country is undergoing tremendous economic and social changes. Our standard of living is still climbing, and there is every reason to believe that it will continue upward. Advances in agriculture have given us an abundance of basic foods, and innovations in food processing have helped greatly in the struggle for better living.

The most significant change is the rapid increase in family income, which has risen from an average of \$4,000 to \$5,800 in a single decade. With that change has come more and more of the material things of life. The challenge to industry is to keep up with the changes in the needs and desires of the people. We have to give them what they want today, and through research and innovation, prepare to give them what they will want tomorrow and next year.

The challenge to the food industry is larger than just supplying sufficient food. People want better eating. With more and more women employed in gainful occupations and a shortage of household help, our housewives want foods with "built-in maid service." I believe the demand for such products will continue and that such demand will put a premium on research for better products, on more capital investment to produce new products economically, and on better selling to tell people about them.

The food industry is looking toward the expanding needs of a growing population. The whole industry is intent on upgrading American tastes and desires, at the same time that it sells more volume. This combination of product and service commands more money in the market place, and it creates more jobs as the consumer is convinced of the added benefits that accrue for him as a result of commodity upgrading.

The current business adjustment will actually become a springboard for a sprint into the future if we keep foremost in mind the appetites of the consumer and the capital needs of our businesses to keep those appetites satisfied. The food industry is moving toward that dual goal with boldness and spirit.

To that end also, General Mills has stepped up its research program, not only for new products and the improvement of old products, but for basic research. We are giving constant attention to the development of better manufacturing processes and greater mechanical efficiency.

The continued decline in the index of industrial production since last August through March has given rise to the theory that the industrial plant of the country has been overbuilt and that we now have too much capacity for our needs, including national defense. I doubt that this is the case, except in some areas where expansion has taken place so rapidly that obsolete and high-cost capacity has remained in operation.

THE INVENTORY SIEGE

For some months the American economy has been in a "state of siege," with some "sniping" going on around the periphery of the central battleground. The siege is centered on a central fortress in our economy: inventory. Production rates are down, while the fortress of inventory is being reduced during this siege.

The sniping is represented by the mild reduction in other economic components which operate to spread the field of battle. Inventory liquidation accounts for about two-thirds of the economic recession. The remaining one-third of the decline in the total of our gross national production comes from a small reduction in consumption, a larger rate of decline in new-plant investment by business, a decline in our exports or net foreign investment, and a

decline in Federal government outlay for defense which will soon end.

The forces resisting all these declines are the small rise in housing outlays and the steady increase in the expenditures of state and local governments.

What is the outlook? We know that inventory reduction has proceeded at a rapid rate and before long production will have to rise to equal the continuing high levels of consumption. This force toward recovery is steadily gathering power and, if the high rate of inventory liquidation is sustained in the present quarter, the upturn may be vigorous when it comes.

Will this force be enough to move us back toward sustained economic growth and full expansion? Frankly, I do not think so. There are adverse forces—the small decline in total consumption which is the result of a large decline in consumers' durable goods, the slowness of the rise in Federal expenditures, the decline in exports, and the decrease in business outlays for new plant and equipment.

We can hardly expect a full recovery to high sustained economic growth and expansion until the downward course of business investment in new plant facilities is arrested. This is not likely to occur this year, and perhaps not until we are well into 1959.

What can we do to speed the upturn in outlays for new plant and equipment? The answer is not easy. Defense expenditures will soon be growing, and expenditures of state and local governments will continue to expand. Housing may increase moderately, and our net foreign investment probably will soon level out. Production will increase when inventories are depleted. However, over and above these gains, consumption must expand sufficiently to encourage enlarged plant investment.

Automatic economic stabilizers have helped to sustain personal income and total consumption as they did in 1949 and 1954. In those years, substantial tax reductions added to purchasing power. So far in this recession, we have not had that advantage. Nor have we had prompt and vigorous efforts in the area of enlarged government expenditures, which are at best slow in action. Many billions of dollars previously authorized remain unexpended.

Lowered taxation is not the permanent deficit creator that en-

larged government expenditures may prove to be. It is important to realize that reduced taxation can so enlarge the total national production and the tax base that total fiscal revenues are increased, not diminished, when taxes are reduced at a time of substantial unemployment. The 1949 and 1954 tax reductions are cases in point.

This issue of tax reduction will soon have to be decided. We hope that government will take effective, prompt action. However, the burden of stimulating increased consumer expenditures will still be upon business.

RIISING COSTS AND PRICES

Another problem businessmen must consider seriously is that of formulating proper policies for determining wages. In the years since World War II, economic measurements show that wages have increased faster than productivity. As a result, the excess of wage increases over productivity increases has produced inflation rather than goods.

We need to adopt policies that equate wage increases to average productivity gains. We have built into the economy far too much escalation, and it carries on into contracts that provide rewards for higher costs, as they are reflected by increased prices in the components of the consumer price index.

Analysis and experience indicate that contracts of this type tend to promote inflation, because they gear wage increases to living costs and to expected increases in productivity in individual companies, instead of to average national productivity increases. The circumstances have permitted strongly organized unions in some industries to gain wage increases above the rise in productivity for the nation as a whole. In some cases, these industries have strongly increased their productivity, which has served as a lever for further wage increases.

Then other organized labor groups, in industries where productivity gains are not great, have pressed for wage increases commensurate with the wage gains of the strong unions in the strong industries. These total combined wage increases have enlarged total purchasing power by more than the enlargement in productivity, and the result has been inflation.

This is probably our greatest national economic problem. We must solve it if we are to have economic stability without price inflation. We now have the paradox of wages and prices going up in the midst of a recession, and we face the specter of inflation when this recession is over unless we do something about it. We must study all the facts about this wage-price problem, inform the public about them, and assist in the formulation of a correct public opinion, so that inflation—a disease widespread in the Western world—may be brought under control.

THE RESPONSIBILITY OF BUSINESS

The important problem that we businessmen face right now is to sell more products to consumers so that production and employment may be increased. To do this, we shall have to break the psychological freeze of consumer funds. We can all do more and better selling, advertising, and servicing. We can speed up product improvements and new products, in order to give consumers what they want.

Corollary to that problem is the problem of attractive prices. The consumer is price conscious. Prices must be within the realm of what consumers are willing and able to pay. Therefore, costs, including wages, must be held in line with productivity. We cannot afford to go into another spiral of inflation.

Of importance is the planning for capital investment to achieve greater productivity at present wage levels. We should neither defer necessary capital improvements, nor engage in unnecessary plant expenditures. We should plan capital needs over a period of years, rather than rush forward with overextended programs and then come to a full stop.

As businessmen, we cannot escape the responsibility for economic growth and the necessity of working with government and labor to channel our economic resources to that end.

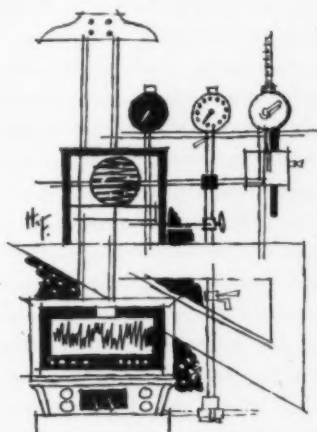
This recession is a challenge to us. While it is a bit deeper than the downturns of 1949 and 1954, it is still a moderate business contraction. We all have confidence in the future, and we are all optimistic for the long pull. The challenge is to speed up the recovery which we know will come. We can turn the tide with better selling.

"We are preparing ourselves in every possible way to take advantage of the expansion of the economy which we expect in the near future. Accordingly, we shall continue without interruption our program of replacement and growth."

BORG-WARNER CORPORATION

■ R. S. Ingersoll

President
Borg-Warner Corporation



JUST AS THERE is not any single economic factor which has caused the decline in business activity at this time, there are, in my opinion, not just one, or two or even three factors, if applied to business in general, that would bring an immediate end to the slackened pace of our economy and restore the boom conditions which we have enjoyed for so many years. In other words, I doubt very much if anyone is going to pull a rabbit out of the hat and change our economic trend overnight.

However, it is reassuring to know that some companies are taking positive action to assure continued economic growth for themselves and the industries they serve. I am certain that the cumulative effect of such action cannot fail to create a more favorable economic climate.

With its extremely broad diversification, Borg-Warner's management must of necessity be highly decentralized. No single group could possess sufficient knowledge to permit it to render day-to-day decisions in all these different industries and areas. The man-

agements of these divisions and subsidiaries are given almost complete autonomy. To them has been delegated the authority and responsibility for the conduct of their operations. The central office of the corporation furnishes the financing function and acts in a service and advisory capacity through its group vice presidents and staff departments.

The steps being taken by Borg-Warner to continue its economic growth are primarily long range in nature. Any action of an individual company which might appear to take place during this period of economic decline and contribute to an upturn in its business would, undoubtedly, be the result of the application of sound management principles over many years rather than of a hastily devised program initiated in the last week or month or six months.

For this reason I should like to point out that Borg-Warner is continuing to pursue the policies and procedures which have been established as sound both in good times and in those not so good. These, of course, could include a list entirely too long to reproduce here, but a few might be mentioned.

We are continually reviewing our central office organization as well as that of our divisions to see that we have the most effective structure we can devise. In addition, we are attempting to put the best qualified man in each position, with a replacement or two being available wherever possible to give us management in depth. Ways of improving and making more effective our research and development activities at both the divisional and corporate levels are constantly being sought.

Continual improvement in manufacturing processes and standards is the goal of every one of our production departments. At the same time, we have always tried to keep our machinery up to date through replacement of worn out and obsolete equipment. Management controls and procedures are forever under scrutiny and are being revised to meet changing conditions. New and better ways to create teamwork among employees and to develop a working attitude which increases productivity are being put into effect.

PARING UNNECESSARY COSTS

But what are we doing differently today from what we were doing a year ago? Even though Borg-Warner has always prided

itself on keeping overhead expenses under control at all times, including periods of high output, there isn't any question but that greater emphasis is placed on cost reduction during periods of business decline such as we are now experiencing. The central office, as well as all divisions, has been reviewing every item of overhead expense with a view toward reducing it and keeping it in line with reduced production activity.

One of the annual procedures has been to develop what we call an operating level study. Each year all divisions and subsidiaries are asked to study their controllable expenses and profit margins in the light of theoretical changes in sales volume from the level they had forecast for the next twelve months. For several years the study covered sales volumes 10 and 20 per cent above and below the forecast, thus covering a 40 per cent spread. The effects of 5 and 10 per cent price reductions on the profit margins also were calculated. Such a technique, if conscientiously followed, draws attention to unnecessary overhead costs, particularly when reductions in sales volume show shrinking profit margins. Most divisions also derive help from studying a well-blueprinted plan for cost reduction whenever sales volume begins to fall.

When the requests for this study were being prepared last fall, we thought we saw a different pattern developing in the sales outlook from that prevailing in previous years. We asked that the study cover cost control for reductions in sales volume from the 12-month forecast of 10, 20, 30, and 40 per cent. You can imagine that such a drastic reduction in theoretical sales volume caused an even greater percentage reduction in profit margins.

This study, of course, has pointed out most effectively to several divisions that they must solidify their cost-reduction plans, tighten up on their variable budgets, and intensify their efforts in this phase of their operations.

Once a year, all the divisional controllers meet at our company headquarters to discuss accounting procedures and practices. You can be sure that the theme of this year's meeting held a few weeks ago was cost reduction and control.

Each controller was asked to re-examine his divisional cost standards, variable operating budgets, purchasing practices, and inventory and production control procedures, all with a view toward tighten-

ing these controls and developing procedures which will allow these overhead functions to be accomplished at lower cost. This same theme was followed in the two quarterly meetings held already this year with all the divisional presidents.

Cost-reduction committees have been functioning in many of our divisions for years, but many more divisions have in the past few months learned the wisdom of using such a committee, spurred on by the recent reduction in their profit margins. As a guide to these committees, our central office personnel service department not long ago distributed among the divisions a cost-reduction manual and check list of proven cost-reduction ideas. This department has been receiving an increased number of requests from the divisions for a demonstration of its cost-reduction training program for supervisors, which has been available for years but until recently was used by only a few divisions somewhat sporadically.

EMPLOYEE EDUCATION

One of our major elements of cost which has been increasing each year since World War II, just as regular as clockwork, has been that of wage rates. For years, many of our divisional presidents have been writing letters to their employees about business conditions in their industries, pointing out the effect of excessive wage increases on production costs and attempting to do a job of economic education—not only with the employee himself, but with his family, by sending the letters to his home. Even though the number of persons employed in our divisions is very small in relation to the total employment in the manufacturing industries of the United States, and our efforts alone cannot change the national trend in wage rates, we wanted to make more of an impact on employees than had been accomplished in part by these letters.

We thought that if we were going to have any effect on stemming the increasing tide of inflation which, in our opinion, has partly resulted from increases in wages not fully justified by increases in productivity, we must start by teaching our own supervision and factory employees that excessive wage rate increases are not good for our own business nor for business in general—that industry in this country by granting such increases is pricing itself out of domestic and world markets. To accomplish this goal of economic

education of our employees and plant communities, we have made use of a color sound motion picture entitled "Everybody Knows," released by the Chamber of Commerce of the United States to industry in general. All of our divisions are showing this film in their own plants and communities. We understand that this picture, using everyday language in its attempt to correct common misunderstandings about wages, prices, productivity and profits, is being enthusiastically received, not only by managements but by employees as well. We sincerely hope this film will play at least a small part in correcting the wage-price inflation spiral which has been shrinking the value of our insurance and pension benefits, as well as all fixed incomes, since World War II. ✓

FOCUS ON PRICE AND PRODUCT APPEAL

You might ask what cost reduction has to do with economic growth. We believe that the pipelines of distribution emptied during World War II have been filled and that the latent wants of consumers which were built up during the war have been satisfied. Competition, not only for markets in this country but for those abroad, has already become very keen. If we and other businesses in the United States are going to increase our sales volume or even maintain it, and if we are going to make the kind of profit margins which will allow us to pay adequate dividends to our stockholders to attract the capital we need for expansion, then we must find ways to give the customer either a comparable product at a lower price or a better product at the same price.

The objective of our research and development activities in contributing to our economic growth is to provide a better product, an entirely new one, or a comparable one at a lower price. The new-products effort of our division and corporate research facilities are at an all-time high. It is not our intention to curtail these efforts nor to reduce our research and new-product budgets during this decline. However, today's conditions have caused us to concentrate our efforts on those projects which are closer to yielding a finished, marketable product and to slow down on those projects which may be several years from commercialization. New-product committees in our divisions are periodically screening all projects to see that we are shooting with a rifle rather than a shotgun.

The consolidation of functions in our divisions for more efficient operations has been taking place constantly, but several steps have been accomplished recently which probably would have taken much longer had they been attempted under the boom conditions which prevailed a year ago. Despite the hardships which necessarily accompany a dip in business activity, such an economic climate often does have a wholesome effect on people's minds and attitudes. As a matter of fact, we find that a period of recession, when the demand for output of goods has slackened, gives us more time to take stock of our strengths and weaknesses.

A TIME FOR REAPPRAISAL

While long-range planning has always been a responsibility of all divisions in Borg-Warner, greater attention is being given to this activity now than ever before. We believe that there was never a better time to plan carefully for the expansion which we are sure will come in the near future.

Not only our central office but most of the divisions are holding periodic meetings of top management to lay out and discuss their long-range plans for new products and markets, improved production processes and facilities, and lower-cost distribution methods. Very intensive efforts are being made to study our present activities and determine the actions we must take in the next few years in order to realize our growth potentials.

EMPHASIS ON CREATIVE SELLING

We have stepped up our sales and marketing efforts throughout all the divisions of our corporation. There is today a re-emphasis on healthy, hard-hitting selling. We believe that people will buy when stimulated by new products, properly and aggressively merchandised.

Our sales departments are being stimulated to improve their selling techniques, particularly as to seeking out new prospects and new markets. In the immediate postwar years, when the demand for our products was high, there was no need to hunt for prospects; we simply had to process the orders that came in. So today there is a lot of talk about "the lost art of selling," and in this connection the automobile industry has been the whipping boy of this recession.

You hear people say that they can go into an automobile showroom and never have anyone even ask their names, let alone try to sell them a car. But the automobile business shouldn't be put into a category by itself; the same thing is happening in other industries.

For instance, our own York Division was holding a regional sales meeting not long ago in a hotel in one of our major cities. The sales manager who was conducting the meeting found that the hotel was not air conditioned. He called on the manager and found that no one, neither our competitors nor own salesmen, had called on the manager at any time to suggest that he air-condition his establishment in order to have more comfort to sell prospective guests. You can be sure that York's sales manager used this example in his sales meeting to point out that for ten or fifteen years many so-called salesmen had become mere order-takers and did not practice creative selling by promoting a desire on the part of potential customers for their product or service.

AN INVESTMENT IN THE FUTURE

As we move through this year of business down-turn, we shall continue to exercise—and also to re-emphasize—the fundamentals of good management. We are bending every effort to develop new and improved products. We seek to produce and to distribute our products at lower costs. We are preparing ourselves in every possible way to take advantage of the expansion of the economy which we expect in the near future. Accordingly, we shall continue without interruption our program of replacement and growth, and we expect to spend \$18,000,000 this year for capital improvements and expansions as against \$20,000,000 spent in 1957, the latter sum including the completion of several major expansions previously undertaken. And we are trying in all ways—through increased efficiency in manufacturing, through rigid cost control, through added productivity, through intensified advertising and marketing and selling, and through renewed teamwork among all those in our employ at every level—to increase our sales and profits right now. By these means, by these actions, we hope and expect to make our own corporate contribution toward the future growth of those industries with which we are identified, and to the economy as a whole.

"Businessmen in every community throughout the country, working through their trade associations, must plan meetings in which positive and dramatic action is taken to restore public confidence."

SCOTT PAPER COMPANY

■ Thomas B. McCabe
President
Scott Paper Company



WE ALL KNOW that our economy has been going through a very difficult period in the past 12 months, but difficult periods are not without precedent with us. In the past 40 years alone—the 40 years that I have been active in business—our economy has been, at various times, in the depths of a depression, on the crest of a boom, beset by wartime controls, plagued by inflation.

Each of these experiences has placed the American people on trial, and each has subjected our competitive system to severe tests. But notwithstanding the severity of these tests, our economy and the American people have emerged from them with both social and economic strength increased.

I believe we are already headed in the right direction to overcome our economy's current setback, and I am convinced we will emerge from this period stronger and better equipped than ever to meet the growing requirements of our society. To do that, however,

businessmen in every community throughout the country, working through their trade associations, must plan meetings in which positive and dramatic action is taken to restore public confidence.

A great deal of my confidence in our future grows directly from a project I have been associated with during the past year and a half. It has been my pleasure to be chairman of the panel that hammered out the most recent Rockefeller report, *The Challenge to America: Its Economic and Social Aspects*.

The report devotes particular attention to the indispensability of continued economic and social growth if we are to achieve our national goals. Our economic rate of growth from 1870 to 1930 was clicking along at 3 per cent a year. In the past decade, however, our economy has been growing at a yearly rate of 4 per cent. There is every reason to believe that, acting effectively and purposefully, we can expect our growth rate to continue at the 3 to 4 per cent level for the next ten years—and beyond. As a matter of fact, there are many of us who are convinced that a growth rate of 5 per cent is entirely possible if we in business and industry grasp fully the opportunities that are clearly before us.

REASON FOR OPTIMISM

There is little doubt about our nation's desire for progress. As the Rockefeller report points out, "America has a notable record of responding to challenges and making the most of opportunities. With our growing population, our extraordinary record of rising productivity, the inherent dynamism in our free enterprise economy, there is every reason to face the future with the fullest confidence that we shall measure up to the challenges that lie ahead."

I know that is exactly how we feel at Scott Paper Company. You can imagine what a great pleasure it was for me to tell our shareholders at the company's annual meeting that our sales for the first quarter of this year were the highest for any quarter in our history. Our total sales were 1 per cent ahead of the first quarter of 1957 as the result of a fine increase—over 5 per cent—in sales of our trademarked paper products. The real measure is disclosed, however, by an examination of earnings for the two periods. We are very proud that our net earnings after taxes were slightly higher in the 1958 quarter even in the face of added freight and labor

costs—not to mention the increased tempo of our marketing program.

I think, to a large measure, this record is the result of our having recognized the economic storm warnings as early as mid-1957. We took immediate steps: We rebudgeted the second half of the year, staged a general cost-reduction program, stepped up our promotional and marketing activities, and tightened up on inefficiencies. In short, we conditioned ourselves for the job ahead.

OBTAINING EMPLOYEE SUPPORT

Because such programs in any corporate enterprise need full support, we staged meetings with all employees in each of our plants around the country. We reviewed the entire situation, the reasons for adjustments, and the opportunities open to our people for the future as a result of strengthening the business today. Consequently, they understood the over-all picture as well as immediate specific needs, and buckled down to the job ahead.

Following these meetings, we initiated an internal promotion built around the theme: "Build SELL into Every Product." Our objective has been to underscore the need for increased efficiency and improved product quality and to underscore for our employees the opportunities facing our company and our nation.

Last year we held a new type of executive seminar. For the first time, the entire manufacturing, sales, and corporate management met as a group for a full week to consider matters of importance affecting the company. The participants gained a more thorough knowledge of all phases of the business, and from their joint discussions there evolved solutions for many current problems, as well as plans for the future. The enthusiasm developed by a frank exchange of viewpoint and opinion on the company and its operations has been carried into its day-to-day activities with most constructive and stimulating results.

In retrospect, it is clear to us that the seminar has had a tremendous effect on the ability of our management group aggressively to meet the present situation—a situation that we see as one calling for a renewed emphasis on planning, personnel development, research, new products, advertising, promotion, and sales.

We at Scott Paper Company have always placed considerable

emphasis on future planning. Last year, a new-planning committee consisting of six vice presidents and a full-time coordinator was established and given responsibility for the projection of future goals and objectives and for the development of plans for their successful achievement. The committee is working on plans for a minimum of five years from now—and, in some areas of the business, as many as ten years.

We are also emphasizing our new-product research program and are making careful investigations into ways of increasing production and distribution efficiencies. After very careful study of the long-range opportunities open to us through research, I think it is safe to say that our budgets for this important activity will probably be increased by as much as 100 per cent over the next five years.

As the result of past research and development, we are also in an unusually fine position. We have been able to make many radical improvements in the qualities of our regular line as well as being able to bring to market a number of new products. Some of these include cups for vending machines; Scottfoam, a unique type of urethane foam with many desirable characteristics; Dura-Weve, our new versatile reinforced paper; and also single-ply family napkins.

MARKETING AND PROMOTION

We have been increasing advertising, marketing research, and promotional activity across the board on our regular line as well as on the new products. We are also moving forward with a completely new distribution program designed to meet the present-day requirements of our customers in the distribution of Scott products from coast to coast. We have developed a truly "customer oriented" policy covering the basic elements of pricing, shipping practices, promotional cooperation, and advertising.

In the period of shortages during and after World War II, selling became a lost art. Now, however, production has temporarily caught up with demand. No longer can the salesman be simply an order-taker. We are now in a new era. He cannot continue to peddle products using the techniques of ten or even five years ago. Ours, like other sales forces, has not found it easy to make the transition from the old to the new salesmanship, but we are now

in the process of developing, not salesmen as such, but marketing men—men who understand and employ all the factors of the marketing mix in their presentations.

We in management are at fault for not having the foresight to establish more effective sales and personnel training programs in periods of prosperity. Furthermore, we should spend more of our time, effort, and money—when business is good—in technical and marketing research, so that at the first sign of a decline in general business we will have new products available, more facts at hand, and new programs ready to be launched.

MOTIVATION AND CONSUMER ACCEPTANCE

I am convinced that businesses generally spend only a fraction of what they should in fundamental and applied research in the social sciences, in human motivation, and in distribution. In spite of the extraordinary advances which have been made in the past decade through research in the physical sciences, American business has lagged in recognizing the long-range possibilities of marketing research. Witness, if you will, the conspicuous examples around you of companies which spend vast sums for research in the physical sciences but only a small fraction of such sums for research in the social sciences, particularly in the field of distribution.

If our men in the field are to be really effective, they must be provided with more basic information about the interrelationships of *all* the activities in our company. It is necessary to an even greater extent than before to help them understand the factors that motivate people and win consumer acceptance; the basic facts concerning markets, products, and advertising; the costs of packaging; the costs of style and product changes; the cost of inventory, of time spent idly gossiping with competitors in buyers' waiting rooms. We must help them understand all of the many things which can help us give better values and increase consumer acceptance.

This broader perspective of the sales function also calls for a more careful look from the point of view of the customer and the ultimate consumer. One of the greatest pitfalls in selling is to attempt to decide, on your own, what the other fellow's problem is. It's for this reason that we stepped up our schedule of seminars—the give-and-take conferences, as we term them—with our various

distributors. They know more about their problems than we do, but solving their problems helps to find answers to some of ours. I feel that these three-day seminars with our distributors have been very constructive and mutually beneficial.

When we speak of sales and markets at Scott Paper, we find ourselves referring more and more to the international scene. Ever since September, 1954, when we made our first substantial investment outside this country, we have been very encouraged about the prospects of foreign markets. As evidence of our optimism for the foreign manufacture and sale of products bearing Scott trademarks, we have been carrying forward a multimillion-dollar investment program in Canada, Mexico, and England. Our plans also call for considering possibilities of substantially increasing our interests abroad.

OTHER STEPS FOR RECOVERY

There is another wide range of activities that I see open to business statesmen. I have already mentioned one example: the Rockefeller Brothers Fund. It is my privilege to serve on the over-all panel, and heading up that special study project has been a liberal education for me. It was a thrilling experience to hear the carefully thought-out viewpoints of some of the ablest authorities in finance, labor, conservation, agriculture, transportation, and welfare.

This AMA economic mobilization conference is another case in point. This and programs like it are deserving of support all over the country as a means of offsetting the deluge of negative and pessimistic reports headlined in the newspapers. Sessions like this help us to bring our mutual problems more clearly into focus, and in so doing they set the stage for finding workable solutions.

I should also mention here the many important trade associations which deserve more encouragement from us; for they, in turn, can very well help people to broaden their horizons.

Complementing and supporting the many individual efforts which companies and trade organizations are so vigorously pursuing is the "Confidence in America" Campaign of the Advertising Council—a nonprofit, nonpartisan business organization which serves the public interest by using the concerted forces of advertising to promote voluntary, individual action to help solve national problems.

In 1954, the prompt action of the Advertising Council is generally credited with counteracting the pessimism of that period and helping to revive confidence during that recession. Those of us who are associated with this latest effort—"Confidence in a Growing America"—feel it will do much to point up the plus factors in America and offset the minus factors that have been receiving so much attention lately.

MANAGEMENT'S ROLE IN THE RECESSION

I should like to call to your attention this statement in the Rockefeller report about the role of the businessman in this recession:

The vigor and imagination of the American businessman in developing new products, merchandising them effectively, and pricing them within the reach of consumers, plus his courage in making investments for future expansion, have been basic to the long-run growth of employment. The American businessman has today an unparalleled opportunity and challenge to exercise these talents. In spite of the increase in unemployment, consumer incomes for the nation as a whole are still high, and accumulated savings are higher than ever. Consumers have shown their willingness to buy when offered attractive values. Funds for investment are available at lower cost than a year or two ago. And as will be shown in the last section of this report, the long-term outlook for our economy is one of demands exceeding our capacity to produce.

Some businessmen are now demonstrating that by introducing new products, by selling aggressively, and by giving better values, they can expand their volume, increase profits, and provide more employment. Many businesses, keeping their eye on the real facts and prospects of the economy, are proceeding to carry out their long-term investment programs. There is an opportunity for many more to profit by these examples. It therefore is imperative that businessmen lead the way by exercising their traditional vision and courage in dealing with the current situation. They should not cling to old practices or rigid price policies or wait passively for government action, or for the other fellow to blaze the trail for them.

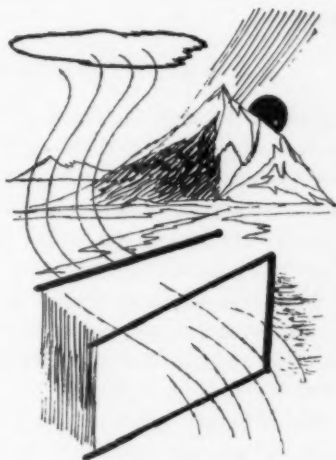
We commend business organizations which urge businessmen to take advantage of the great opportunities that lie ahead.

I am firmly convinced that old-fashioned optimism and constructive planning, translated into forceful action, will bring about the necessary acceleration that is needed in our temporarily slowed economy. There is no doubt in my mind that very soon America—and the free world—will once again be on the way to another era of growth and prosperity beyond anything we have yet known.

"There can be no 'waiting for things to get better'... The present business situation is inspiring us to lay plans for further improvements and, therefore, greater investment..."

CARRIER CORPORATION

■ Cloud Wampler
Chairman of the Board
Carrier Corporation



FOR MORE THAN A YEAR now, we at Carrier Corporation have been engaged in extensive cost- and expense-reduction programs, just as many companies have. And I am sure we have made a lot of progress. Unfortunately, however, this does not show itself to the extent that might be expected, because the gains are so frequently offset by rising costs and expenses over which we have little if any control. Then there is something else to be added—an intensely competitive situation which is complicated by irresponsibility and lack of experience on the part of some producers.

To a considerable extent we have been chasing ourselves around the stump, so to speak. And yet the tightening-up process is good for Carrier and in due course will be good in some small degree for the economy as a whole. Certainly we are getting rid of a lot of accumulated fat. Also, the younger members of our organization are learning the hard way what economy really is, and, perhaps even more important, they are learning the hard way that goods have to be sold instead of just taking orders.

As I use the expression "learning the hard way," please do not get the idea that we believe in teaching people to swim merely by throwing them into the water. As a matter of fact, one of the most important things that Carrier is now doing is the expansion of its training programs, including great emphasis upon management training.

WHAT MANAGEMENT SHOULD NOT DO

Getting back to our cost- and expense-reduction efforts for a moment, I am sure that the most difficult task confronting Carrier management is—and will be—to decide when and where to spend money as opposed to when and where *not* to spend it. You know, there are two ways to go broke: One is to spend too much, and the other is to spend too little.

Nowadays we hear much about what companies are doing to stem their individual recessions and *THE* recession. But we do not hear much about what is *not* being done—or perhaps I should say, what *must* not be done.

Here are some of the things which I believe must not be done:

We of top management must not handle ourselves in a manner which will cause our associates, and particularly those who are younger, to get the idea that this is a period of great trouble and is likely to continue for a long time.

Putting this positively, we must continually reaffirm our faith in America and its people. And right here and now I wish to express my own deep-seated conviction that even the mental and moral and spiritual causes of the recession will in due course be effectively dealt with. This is my position because I believe in the fundamental good sense of the American people, and especially those who work in our plants and yours. And yet I have to admit this: It may take longer than it should for these men and women to realize that selfish leadership is not good leadership.

From time to time, a business readjustment—sometimes small, sometimes large—is inevitable. If for no other reason, it is inevitable because of excesses indulged in, for which we eventually have to pay.

Using Carrier's own recession to make my point, I now know that in 1956 we overloaded certain of our distributors and dealers.

Here I mean to sound a note of warning about "hard selling." Although I believe in hard selling, I do not believe in overselling, and almost always it takes a lot of wisdom to distinguish between the two. In this connection, I should like to ask: Did the sale of more than seven million motor cars in 1955 help or hurt the American economy?

Let us not lose¹ sight of the fact that numerous segments of American industry supplied in 12 years—or maybe even less—the civilian demand of 18 years. And it was this that caused so many of us to believe that the trees would actually grow to the skies. Therefore, a great deal of new productive capacity was provided, and the total was more than was actually needed to supply normal demand. The result was inevitable, and in the eighteenth year of the period I am now discussing—that is, 1957—the good old-fashioned law of supply and demand began to catch up with us. So here we are with a case of indigestion that is pretty painful.

I am not sure what you do when you have indigestion, but I know what I do. I just give the old stomach a bit of rest and simultaneously try to build up my over-all health. This, I suspect, is an apt though homely illustration of what is happening and *should* happen currently in many segments of the American economy. But for the love of heaven, let's not get indigestion confused with some dread disease!

WHAT ABOUT TOMORROW?

Continuing my warnings, let me again use Carrier as an example. We are now engaged in studies to determine what our standard costs will be in 1959. The evidence appears conclusive that we will have to pay more for all kinds of services and for many materials. At the same time, we see no possibility of increasing selling prices. So, what do we do? We put a lot of people hard at work figuring out ways and means to offset the higher costs. And one of the things I fear most is that we may use our engineering skills so extensively to meet the necessities of the moment that we will not do a really good job of getting ready for tomorrow and the day after.

This leads me into another area of discussion, and I shall now raise a question which I believe we must all face. Is it not likely

that many of us, especially those engaged in the production of consumers' durables, have depended too much in recent years upon gadgetry to sell our wares rather than bringing out fine new products?

Again using our own situation to make a point, I know of only two new products of major importance that have been brought out by the air-conditioning industry since the end of World War II. And the development work on both of these was started prior to 1940. I guess we were so busy making hay while the sun shone that we forgot to sow some pretty important crops. And yet this is not the whole story by any means. The long-term development efforts of our industry—and perhaps others—have been hampered by the necessity of trying to beat the cost-price squeeze, especially during the last three years.

CARRIER'S PROGRAM

Thus far I have been painting with a broad brush. Therefore, I shall now cover briefly certain specific things that Carrier has been or is doing—or that we have not done and propose not to do:

1. We are continuing to make very substantial capital expenditures. The total in 1958 will be second only to the record high of 1957.

2. Basically, our capital expenditures program for 1957 involved the replacement of old and inefficient facilities with fine new buildings and equipment. The same is true of 1958.

3. Carrier's capital expenditure budget for 1959 is now being formulated. It is our present intention to step this up by including certain projects which were deferred last year when money became so tight. I cannot tell you as yet what the total will be. But I know that the present business situation is inspiring us to lay plans for further improvements and, therefore, greater investment than would have been the case otherwise.

Apropos of my last three points, it seems to me that most of us have become too bearish regarding the capital expenditure outlook. True, excess capacity exists today. But much of this is represented by facilities that should be abandoned in favor of plants that represent the very last word in efficiency.

4. A major part of Carrier's improvement program has been

and will be related to research and development. Incidentally, our magnificent new research center was occupied only a few weeks ago.

5. Although many of our development people are working on cost reduction, a very special effort is also being made to get new products ready more promptly than called for by original schedules. Because of our belief in the residential air-conditioning market, major attention is being paid to equipment for homes, with emphasis upon more efficient air-to-air heat pumps and a gas-fired system that will be lower in price and cheaper to operate than anything of the kind ever before offered. These products will be helpful not only to Carrier but to the utility companies, both gas and electric.

6. Among the possible victims of any business recession is the existing office building that is not air conditioned. Accordingly, Carrier is now hitting this market harder, not only in sales effort but also in engineering.

7. It is becoming increasingly apparent that the air conditioning of factories results in greater productivity and many other gains. So here is another area in which Carrier is stepping up its marketing and engineering programs.

8. Our engineering and research and development expenditures in 1958 will be the second largest in the history of the corporation, and a very close second at that. But in results, we are positive they will set a new high record because of better planning and greatly improved facilities.

9. Having in mind the overselling of which we were guilty in 1956, we are determined to do better forecasting. Toward that end, certain of our marketing people will be pulled away from the pressures of today and tomorrow and required to be more objective in sizing up not only this or that market but also the general business climate.

10. We are holding business training seminars all over the country. The objective is to help our dealers improve their business practices. And we believe that this program will contribute something to protecting the future of small business, both short-term and long-term.

11. We are seeking to stimulate the interest of the end user of our products in advance of the normal selling season. During the

past four months, Carrier's installing dealers submitted more proposals to prospective buyers than ever before. The results are already beginning to show. Obviously, one of the things we are aiming for is a production curve, and therefore an employment curve, that is more nearly level.

12. A larger portion of our advertising money is being spent closer to the point of sale. Among other things, more newspaper space is being used.

13. We are simplifying our product lines, standardizing an increasing number of components, and doing more and more manufacturing as opposed to buying on the outside.

14. Brainstorming sessions are proving very helpful as we seek to cope with today's problems. One of its chief values is the sense of participation provided for a large number of employees, including people pretty far down the line. I believe that these sessions have caused a great many Carrier people to say to themselves, "We belong." And that is good.

15. The principal objective of our cost- and expense-reduction programs was and still is to get back to reasonably satisfactory profit margins. But we are also shooting for the lower selling prices that will broaden our market.

16. Every aspect of Carrier's incentive compensation program is being re-examined and new possibilities explored. One of our top men is spending practically full time on this assignment, with the assistance of a management consulting firm of wide experience. What we hope to do is provide more and more of our employees with an incentive that will result in greater productivity in all parts of the business. And, of course, this will mean lower costs, followed by lower prices, followed by a broader market. On top of everything else, our people will make more money.

17. Over the years, Carrier has sought to encourage its people to take an active working interest in their communities and also in state and national affairs. We now propose to place more emphasis on this, even to the extent of urging political action. For we are convinced that American business has for a long time taken too much of a "hands-off" attitude with respect to selection of men to run for public office, elections, legislation and, perhaps most important of all, the substitution of administrative procedure for law.

18. My last point is essentially philosophical rather than specific. There is no question but that the most intense competition prevails throughout the industries of which Carrier is a part. But this condition is more nearly normal than the atmosphere of the ten years following World War II. So there can be no "waiting for things to get better." Even more important, a sound balance must be maintained between the needs of today and those of tomorrow. Any other course would be a disservice to both employees and stockholders.

NO CURE-ALLS

Nobody knows better than I that what I have just outlined is not very dramatic. But I believe that the troubles that beset us are not going to be remedied by dramatic action on the part of anyone—not even the government. Anything dramatic that might be done is almost bound to have only a temporary effect, but with a tragic aftermath—for example, more deficit financing and then more inflation. We must not forget that today's dollar in terms of purchasing power is 48 cents versus 100 cents in 1939.

Maybe we of Carrier are too simple and too old-fashioned. For we hold that the one best way out of this or any other business setback is: Face up to the facts and work like hell! And, believe me, this does not mean more pay for doing less.

SOME GUIDING PRINCIPLES

Over the years, the men and women of Carrier have sought to live up to a set of principles which has become known as our creed. Let me quote the first four sentences, which seem especially appropriate to this discussion:

We believe that rights and obligations are inseparable.

We believe that the great opportunities which are ours carry with them great responsibilities.

We believe that these obligations and responsibilities call for a high order of good citizenship as well as competence in business.

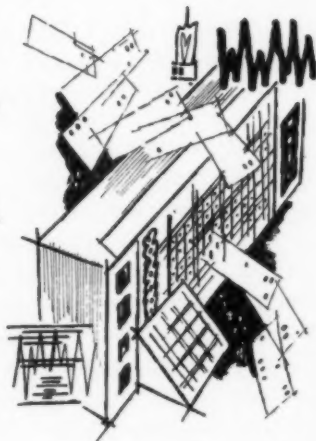
We believe that both individual and corporate conduct should be governed by the Golden Rule.

There is no better design for living. There is no better way out of trouble.

"Although the recession is tough, we can take advantage of some of the conditions it produces. We have lost our complacency in the past eight months, and with its loss we are stronger."

INTERNATIONAL BUSINESS MACHINES CORP.

■ Thomas J. Watson, Jr.
President, International Business
Machines Corp.



THERE IS A GOOD DEAL OF CAUSE for optimism in our field, and it isn't by any means confined to our company. We compete with a number of companies, and we know their ability for original and creative thinking.

To present their ideas as well as our own, I have been in touch with ten of these companies. Those I have heard from are having some problems this year, but they are all optimistic about the future. Four expect to exceed 1957 performance this year; six expect to be below. Three companies commented on the possibility of a tax cut, and each recommended against it because of its inflationary effect.

The recession has certainly stimulated thinking in our field, and every company sent me good new ideas to combat the recession. Some have bolstered profits by increasing their business abroad. Most are working on or have installed new sales plans. Some are using their top officers to contact their most important customers,

not only to improve relationships but also to learn how better to serve them. To make buying easier, terms of payment are being eased. Newer and more economical products are being rushed from research into production.

Within IBM, we have been planning and acting in several areas since our sales began to slow down last September. Our income presently is extremely good, but in a rental business reduced sales affect rate of growth at delivery time, so we are all concerned.

In sales, we are concentrating on improving the efficiency of our representatives—emphasizing more prospecting and trying to eliminate paperwork. A salesman is only effective when he's in front of a prospect, and in our company this is only about 180 minutes per day. Anything we do to increase his time with prospects is money in his pockets and ours.

Selling techniques have changed tremendously in the past 15 years. You remember the auto salesman in the middle 1930's who would bring attractive new cars around to your homes. You remember how hard he worked. You perhaps had a chance to try three or four different cars before making a purchase, if you made one at all. How often do you receive this kind of personal call at present?

MARKETING METHODS MUST CHANGE

It may not be that auto salesmen are any less aggressive or less hard-working than formerly. It may simply be that to sell the large number of cars the industry has been making, marketing methods must change. The auto salesman must sell on a wholesale basis, using direct mail and telephone to develop more or less sure prospects before using the extended time necessary for a personal call and, hopefully, a sale.

Using this conclusion as a lead, we have recently been examining our own salesmen's activity. In the happy, easy selling days of the past ten years we have increased our individual quotas 600 per cent over the late 1930's. The increased quotas have forced our salesmen to bypass the small prospect and concentrate on wholesale selling. This is a significant change in our pattern and, if allowed to continue, could reduce our business to a basis where we were adding almost no new customers. From 1937 to 1957, our business grew

from \$30 million to \$1 billion, and our customers from 2,000 to 20,000. Obviously, our growth must be continued on a basis of gaining many new customers each year.

It is clear that sales and marketing plans, in our own business at least, can get quite warped in times of boom. If these same plans are used in times of lessened industrial activity, they could well change the entire course of the growth of our business.

Therefore, a new sales and compensation plan is being put into effect in our largest division to better meet present-day markets. This plan will compensate salesmen more equitably for the effort necessary to pioneer new accounts. We know that, from a long-term growth view, a dollar of new rental is more valuable to us than a dollar of additional rental in an existing customer's account, and our new commission rates will reflect this.

Generally, we're going back to emphasizing the fundamentals in selling that haven't changed in 50 years. Every salesman is going to report—on a weekly basis—not only calls, but also demonstrations and proposals, as well as the business closed and the per cent of quota which has been achieved. The field managers are going to keep weekly records on hours spent in the office, hours spent in the field, and, most important, the number of calls made with the younger salesmen.

Our electric typewriter division has started a new program whereby its service people are encouraged to turn in leads on typewriters that they feel should be replaced. In the past five months, this simple device has provided 13,000 leads and resulted in 1,450 sales.

Late in 1957, we wanted to get one of our very new products, which we call RAMAC, in front of customers and prospects in a dramatic and rapid fashion. Since the product was new and complex, we had a very few prototypes and demonstrator models. To prevent a 12-month wait until demonstrators became widely available, we decided on a road show called RAMACADE. Three separate trucks were outfitted to carry the RAMAC. These trucks traveled across the country along three different routes, stopping for exhibits at the principal IBM offices in order to give our prospects and customers a first-hand look at this new product. In stops at 25 cities, the RAMACADEs have been visited by approximately

65,000 customers and prospects, and the effort has resulted in a good number of new orders.

Not only did the RAMACADE get the product in front of our customers and prospects in a hurry, but it also saved several million dollars in inventory in demonstrator machines and insured that every factory delivery after the first few would be a revenue producer.

MAINTAINING PRODUCTION

On the production side, the present situation has led to some interesting discoveries. To some extent, we have been preparing for 1958 for a long time. We have been very fortunate in IBM in having no lay-offs since 1921, and we're doing our best to avoid lay-offs in the future. To this end, we have had our purchasing people subcontract about 33 per cent of our subassembly.

Theoretically, this would imply that we could take a 33 per cent reduction in volume without lay-offs, but lately we have realized that we have broader responsibilities than just to our own people. A canceled subcontract means that the subcontractor must lay off his people or find new work for them, and in these times finding new work isn't easy. Therefore, we are trying our best not to cancel subcontracts, and when we do, we try to give very adequate notice to the subcontractor. When we do this, something has to give, and with us it's our backlog. It's still comfortable, but it's down a bit over what it was eight months ago.

We have not canceled or slowed down any of our capital investment plans. Building costs are down slightly, and when times improve they will go up, so we're carrying on. This may result in some temporary overages in space, but we very much doubt it.

Obviously, we're looking for newer and better products, and our research expenditures are increasing as planned. We know that it's largely through our research team that we've grown as we have in the past, and we're not only increasing our research bill, but also the percentage of our total gross which goes into research. As a result of increased effort in the research and development areas, we expect our data-processing division to announce many more new products in 1958 than it did in 1957.

Costs plague all of us, and our cost of product has risen sub-

stantially since 1946. This has resulted in higher rentals which have removed a significant segment of our potential market. Now our development people are putting a great deal of money and effort into bringing out simpler and less costly machines to increase our number of potential users.

In general management, we are striving for more and better control. Our company has been decentralized a great deal, and we realize now the need for improved controls. Our people are being taught that even though we are decentralized they must constantly check to see that IBM policies are being correctly interpreted and carried out in the lower echelons of our company.

We have learned again in the past nine months the vital necessity of good planning and control, and even more important, the necessity of taking firm and immediate action when control reports indicate that things have slipped. We're proud of the action we've been taking lately, and would be prouder if it had been taken last November. Our general plans and results on a corporate basis used to be reviewed every 90 days; now it's monthly.

SMALL PROBLEMS COUNT, TOO

In little things we're trying hard, too; not so much because of the money that can be saved, but because of the posture of frugality that it gives to the company and all its people. We've cut down mail and message deliveries within our offices and plants. Wherever we have private telephone lines, it's now mandatory that people use them and wait for them when they are busy, instead of using a public line.

During the past decade, the rapid growth of IBM has constantly brought to our attention the importance of maintaining what we call a "small-company attitude." We are trying to get each manager to feel as much as possible that IBM is his own company, that he has a real stake in the total success of the corporation.

To help accomplish this, we set up a stock-option plan for 50 of our top people two years ago, and have just announced an employee stock-purchase plan. With each manager feeling a personal concern for the success of his segment of the business, and for the total company, his actions and decisions must increase the efficiency of the whole company.

This "small-company attitude" at all levels of management can result in immediate actions to solve problems where they arise. Big companies may tend to become ponderous, rigid, and indifferent to the little things: complaints from small customers, minor mix-ups in production, or slip-ups in service. Unfortunately, these little things grow and become irritants to customers, can destroy confidence, and create hostility to one's products. We believe that by correcting these things by proper attitude—the "small-company attitude"—throughout all levels of IBM, we will stimulate the sales we urgently need.

Rapid response to the service needs of customers is another major way in which we are attacking the decline. Webster defines service as "conduct contributing to the advantage of others." Surely this is one of the important ways to increase the flow of goods in the economy.

THE RESPONSIBILITIES OF MANAGEMENT

It seems to me that this recession should make all of us in management realize that we have a larger responsibility than that of managing our own individual companies. We each have a responsibility for the over-all economic welfare of our nation. One hears complaints about government control of business, and yet, analyzing the controls we resent, we will see that many of them have been brought about by business practices in the past which needed some supervision and control.

Business executives are going to have to learn how to manage their businesses so as to make recessions few and far between and—if they do occur—to keep them shallow and prevent real depressions. If we are unable to do this, I'm confident that the voters of the country, through the government, will impose on our business community greater and greater controls, and we will lose more and more of the free enterprise system which we all admire. If this happens, I suspect it will be because we as businessmen have not fully realized our responsibility to society.

Although the recession is tough, we can take advantage of some of the conditions it produces. Ever since 1939, we at IBM have found it easier to sell our products than it is now. We hope this hasn't happened entirely by accident. Nevertheless, when a sales

record rolls on and on, it is bound to build up some complacency, first in the sales force itself, and then throughout the company. We have lost our complacency in the past eight months, and with its loss we are stronger.

In summary, the past eight months has shown us in IBM that:

1. There is a critical need for re-examining every management technique at our disposal. We have learned not to look for over-all panaceas, but to concentrate on more effective day-to-day direction and tighter controls: knowing the score while the game is being played.

2. Sales practices built in boom times can be detrimental to the long-range growth of one's business. Sales plans effective in boom times must be considerably overhauled to meet the requirements of recession.

3. Sound long-range programs should not be changed radically and in haste. Fear is never a good basis for intelligent action.

4. Now, more than ever, high employee morale and whole-hearted support in achieving lean and hard-hitting operations are essential.

5. Without research and development there can be no new products. New products are the basic ingredient of an individual company's sales growth and a healthy economy.

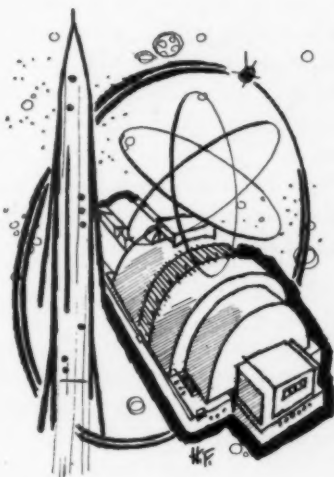
6. Finally, if we are to fulfill our responsibility to the industrial well-being of the nation, each of our actions must be taken only after careful appraisal of its possible effect on the economy as a whole. Our economy, unlike some others, truly reflects our individual actions. Our actions, therefore, must be wise, for they will determine in large measure not only our country's immediate economic future, but also the future of the entire free world.



"The task of management is to provide bold economic leadership—to rally the forces of investment, innovation, production, and salesmanship in a sustained effort to resume the national advance."

GENERAL ELECTRIC COMPANY

■ Ralph J. Cordiner
Chairman of the Board
General Electric Company



A MAJOR PREMISE of the General Electric Company's present program is that the United States is not in a general recession. It is in a limited recession whose effects have been concentrated chiefly in the durable-goods industries, along with the materials and transportation industries that are so directly affected by the volume of durable goods.

This distinction between a general recession and a limited recession is important, and it has not received sufficient attention. If the serious unemployment problems of Detroit, Pittsburgh, and other centers of heavy industry were actually common to all cities and all sections of the country, the alarmists might well be justified. But that is not the case. Except for heavy industry, associated materials, equipment, and transportation, most sectors of the economy have been only mildly affected, and some sectors such as services, defense, and public construction are actually expanding.

As far as General Electric's own business is concerned, orders received in March and April of this year were significantly higher and well above the disappointing level of orders received in January and February. There is no way of being certain that this upward trend will continue, but it appears that the worst may be over and that an upturn is trying to get under way.

We in General Electric believe that a sound recovery cannot be achieved by massive government intervention. The economy might be temporarily stimulated, but it would ultimately be poisoned by inflation and weighted down with a staggering load of damaging after-effects. Instead, General Electric's management believes that the key to a sound recovery lies in a concentrated and sustained effort by American business, supported by every person who has a job, income, or savings, to generate new confidence, greater sales, and higher employment.

WHAT GE IS DOING

Therefore, I should like to outline ten specific actions that the General Electric Company is taking at the present time to move swiftly through this period of adjustment and accelerate the upturn in business.

First, General Electric is striving to eliminate every element of waste that adds to the cost of producing and marketing goods for its customers. A recession is a signal to the businessman to remove the excesses that have accumulated during a period of headlong expansion. Therefore, as soon as it appeared—more than a year ago—that the period of adjustment was approaching, General Electric stepped up its scrutiny of all operations in an added effort to search out and eliminate all activities of doubtful value. This program is being vigorously pursued, so that the company's customers can be offered the best values possible.

Second, there has been orderly planning by General Electric managers to try to minimize unemployment and keep production as steady as sales and forecasts would permit. Our managers are human, and some of them have naturally made mistakes or bad guesses, but they have tried to keep the employees and their community neighbors as fully informed as possible on the changing necessities of the economic situation.

Third, the necessary inventory adjustments are being carried out in as rapid and yet orderly manner as possible, to minimize both the length and the intensity of the adjustment period.

RESEARCH, PERSONNEL, AND INVESTMENT

Fourth, General Electric's research and development expenditures have been continued unabated, so that the new products, new industries, and new jobs of the 1960's will not be delayed. The company's research and development expenditures in 1958 will again amount to well over 6 per cent of sales, which is three times as high as the average for all industry. That will probably represent a greater expenditure for research and development than the total of the Company's earnings.

Fifth, the company's long-established program of recruiting, developing, and training scientists, engineers, and business and liberal arts graduates is continuing. General Electric, with its force of 20,000 scientists and engineers, is one of the nation's most important sources of advancing technology. GE's expenditures to train and upgrade its employees in factories, laboratories, and offices will again total from \$35 to \$40 million in 1958. The company is also continuing its active program of support for the nation's schools and colleges.

Sixth, General Electric's announced plans for capital investment are moving ahead on schedule. In the past ten years, General Electric has been substantially rebuilt, both in the older manufacturing communities and in the communities where new manufacturing facilities and laboratories have been established. This modernization and expansion program has put the company in an excellent position to give its customers outstanding values and up-to-date products. Yet General Electric has no intention of stopping its investments in projects that will help it be competitive in a highly competitive industry having 5,600 electrical manufacturers. The three-year, \$500-million program of capital expenditures which was forecast by the company in 1955 is proceeding on schedule, although individual elements are naturally changed from time to time to recognize changing conditions. In 1958, the company expects that our department general managers will initiate projects amounting to about \$135 million. About 80 per cent of

this year's expenditures will likely be for new machinery, to improve and extend present facilities.

PRICING POLICIES

Seventh, the prices at which General Electric sells its products have, for the most part, remained about level in recent months, in spite of automatic wage increases in the company's factories and in those of suppliers. As a result, customers are offered unusual values at today's prices, and this will help to build business volume back up to the normal trend. Looking at the situation realistically, however, such bargain prices cannot be expected to continue very much longer. General Electric and many of its major suppliers and competitors have labor contracts that grant automatic wage increases, which are inflationary in their upward pressure on costs and prices. In addition, government deficits and increased government spending make it likely that inflation will be further accelerated. From the standpoint of the consumer, values will never be better than they are now.

Eighth, in addition to these favorable prices, General Electric is offering new credit terms that recognize the problems of the times. For example, the General Electric Credit Corporation has developed an "Unemployment Protection Plan" to help customers through periods of unemployment due to sickness or layoff. A "Skip-Payment Plan" encourages customers to buy now by deferring the first monthly installment payment for 90 days. Advantageous terms have also been made available to distributors and dealers, and they cover the many competitors' products which are handled by General Electric dealers and distributors.

OPERATION UPTURN

Ninth—and this action is probably the one that is most specifically directed to the problems of the recession—General Electric has launched an aggressive six-month program to wrap up and intensify all these activities. The program, known as "Operation Upturn," is a company-wide drive to accelerate the upturn in business by bringing extra values and renewed confidence to customers. Its basic purpose is to build sales and jobs in 1958, for General Electric and for every company associated with General

Electric as a supplier, distributor, dealer, agent, contractor, or community neighbor.

For example, our manufacturing people are striving to improve product quality and reliability, reduce the causes for complaints, tighten up schedules, and further improve their record of keeping delivery promises.

The company's engineers are combing over present designs to add more features that customers want or to improve quality and reliability. They are trying to provide a greater range of application and performance characteristics.

Public and employee relations people are enlisting employee and community support for this program to put the customer first in all our thoughts and actions. Every employee is striving for the quality of workmanship that assures the customer of outstanding value, whether that customer be a housewife, a business concern, or the nation's armed forces.

And marketing—the spearhead of this program—is stepping up its sales service in every way. The sales people are finding out what customers want, and then seeing how the company can provide it. The salesmen are offering more creative application assistance and improved product service. They are reviving the old-fashioned shoe-leather selling that creates business where it does not now exist. They are pointing out extra values and features in our products. They are selling hard.

In other words, Operation Upturn is focusing the efforts of everyone in General Electric on doing a better job for King Customer. The program is calling forth the enthusiastic efforts of more than a quarter million General Electric employees in laboratories, factories, and offices across the country. It is seeking to enlist the support of 45,000 suppliers and more than 400,000 firms that sell or service the company's products.

Other companies are announcing their own plans to stimulate sales and renew public confidence. In many places there are community-wide programs directed toward the needs of the local situation. Operation Upturn is part of this exciting national picture of the people of the United States shaking themselves loose from the doubt and confusion of recent months and setting about purposefully to resume the national advance.

The tenth element of the General Electric program is this: Every effort is being made to help the public understand the facts about this limited recession, and what is required to bring about the national recovery. This includes both the economic facts and the political climate that is required to achieve a sound and a swift recovery.

It is important that every citizen keep the situation in proper perspective. A swift and sure recovery cannot be attained by sitting back and relying on government stimulants, deficit spending, meaningless tax cuts, deliberate inflation, or any other economic sleight-of-hand. Eight years of such government measures failed to revive the economy in the 1930's, and there were still 10 million (or 25% of the people) unemployed in 1939. It took the threat of shortages and inflation, with the outbreak of the European war, to stimulate buying and investment and start employment upward again.

The solutions to today's less serious difficulties will be found not in government intervention, but in a common effort by all citizens to work more purposefully, buy and sell more confidently, and build up a higher level of solid, useful economic activity.

That is not to say that the Federal, state, and local governments do not have important work to do. There are many constructive measures that would stimulate a sound recovery without sowing the seeds of future inflation. Business leaders can render an important service by building public support for sound economic policies and for the government representatives who are willing to stand up for such intelligent policies.

A POSITIVE PROGRAM

The public does not want to know merely what we in business are *against*. It wants to know what we are *for*. It wants to know what positive program of action the government should undertake to provide the political conditions for a sound recovery. Here are the measures favored by General Electric, and being publicized as part of its program to accelerate the upturn in business.

General Electric favors tax reform, rather than a tax cut. There is increasing public appreciation of the fact that a so-called tax cut without an equivalent cut in government expenditures is not

a tax cut at all. It simply shifts the tax from the visible to the invisible tax of inflation. Tax reform, rather than a tax cut, is what is needed. By tax reform I mean a gradual reduction of the excessive tax rates that take away more than half the earnings of a business, and, in the case of individuals, rise to 91 per cent. Sound tax reform should also include a complete review of excise taxes and depreciation practices. Such tax reform would probably be the strongest single measure the government could take to encourage the formation of new businesses and personal enterprises, feed the growth of small businesses, and stimulate investment and employment throughout the economy.

General Electric favors acceleration of defense work and public construction that is truly needed, with the latter preferably on a local or state basis. But massive public works programs, whose impact would be felt only long after the recession is over, are not needed and would do recovery more harm than good.

General Electric favors a realistic monetary policy that encourages investment and construction. Such a monetary policy is now substantially in effect.

General Electric favors a vigorous defense program, stimulated by the same time-tested profit incentives that have made the American civilian economy the most progressive in the world. More adequate profits in defense would produce not only faster progress in technology, but would also lower the costs of defense.

As I have indicated, the company favors extending the duration of unemployment compensation benefits during this period of abnormally high unemployment. It is important that this be done through the states, rather than by so-called Federal assistance. The states have ample unemployment reserves—over \$8.7 billion.

General Electric also favors the development of a modern national labor policy that recognizes the realities of present-day monopoly union power, with its restrictions of output and its strong inflationary effects. It seems clear, from what has happened again in Washington in recent weeks, that very few of the people's representatives in either party are willing to step up to this responsibility in an election year. It appears that most of our elected representatives are more concerned about the feelings of a few union officials than they are about the rights of millions of rank-and-file union

members and the three-fourths of the labor force that does not belong to a union. Perhaps blind obedience to union officials was good politics in the past, but it is not necessarily good politics now. Some highly practical politicians believe the public is angry about the arrogance of union power and is ready to support constructive legislation to bring it under control.

RESPONSIBILITY OF THE CITIZEN

What I am suggesting in these comments is that, with enlightened public support, the government can provide the political climate in which the economy can work its way out of the recession. But the government cannot be expected to cure the recession.

As President Eisenhower has so eloquently stated, "The real mainspring of our kind of economy is not government, but the built-in thrust and vigor of private enterprise." The General Electric program I have outlined in these ten points may or may not apply to your business. But it represents an earnest effort by one company, in one industry, to accelerate the upturn in business.

Will that upturn be brought about soon? The business leaders can exert a powerful leverage on the movement of the economy as a whole. But let us have no illusions. We cannot decide this matter for the American people, nor can the government, nor can the headline-hunters with their something-for-nothing formulas for economic salvation. In this do-it-yourself country, the pace of economic growth is determined by millions of businessmen, consumers, investors, employees—in short, by the responsible decisions of every individual citizen.

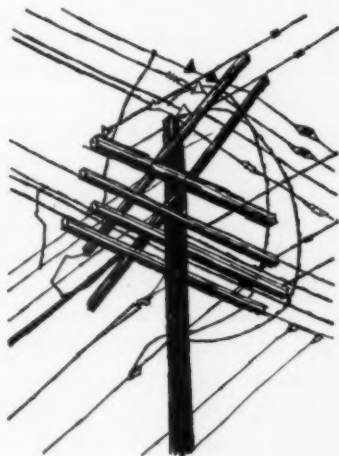
The task of our representatives in government is to provide intelligent political leadership, so that the full vigor of private enterprise can be exerted. The task of management is to provide bold economic leadership—to rally the forces of investment, innovation, production, and salesmanship in a sustained effort to resume the national advance. And the task of each citizen is to buy, work, invest, and vote with confidence and responsibility.

Together, we Americans can bring about the upturn and press forward to a great new surge of national growth. Together, we can prove—once again—the unconquerable vitality of a free society.

"We are going ahead with our modernization program virtually without change... Our construction expenditures for 1959 will probably be in the \$2 billion range..."

AMERICAN TELEPHONE and TELEGRAPH COMPANY

■ **Frederick R. Kappel**
*President, American Telephone
and Telegraph Company*



TO PROMOTE the general economic welfare, the prime necessity for any business is to keep its essential health and strength. Weak sisters cannot contribute to a strong economy.

We ought not to let productivity fall. Using more man-hours to do a given amount of work will cause lasting harm, because if productivity goes down, standards of living will go down with it. Hiking wages above gains in productivity is just a way of living beyond our means and is bound to have the same consequences. This is the road to trouble for everyone.

The efforts of business to serve the country's well-being are not helped by those who take out after businessmen for trying to do the very thing that holds the best hope for the future—namely, to keep their companies strong and healthy so that they can take new risks, increase productivity, sell more goods, and employ more

people. There are those who hold the notion that somehow the country will find a formula for pushing profit down with one hand and pulling business up with the other. This is impossible, and we need understanding of that fact not only in Washington and in our state governments, but up and down the countryside.

In the Bell System, construction expenditures and employment are geared to the rate of growth in service, and are dependent on earnings which assure our ability to finance. Growth in telephones in 1957 was about 2,800,000, and long distance messages exceeded the previous year's total by more than 7 per cent. Construction expenditures in 1957 were more than \$2,500,000,000.

We began to feel the downturn in business, however, about the middle of last year. As the lead time on capital additions in the telephone business is from 12 to 18 months, we started then and there to adjust our planning for the future. Today our construction program for 1958 stands at about \$2,200,000,000, or 12 per cent below last year; whereas our growth in business has been running about 40 per cent less than in 1957 as to telephones, and 30 per cent less as to long distance messages.

So our construction program is down less than our increase in business is down. In fact, our construction in 1958 is about equal to the average for the past three years.

MORE MODERNIZATION

Why is it so large? Part of the answer is that we are going ahead with our modernization program virtually without change. This, plus expenditures for replacing obsolete plant, moving and relocating facilities, and so on, accounts for about \$900,000,000.

This \$900 million of work does not represent any reduction in program at all. Some of it, in fact, might well have been done in 1959, and the truth is that to even out our construction work we have moved into this year's program some things that under other circumstances might have been left until later. However, it didn't seem smart to do too much of this, because that would only get 1959 out of whack.

For added capacity to handle more customers and more long distance calls, we are spending this year about \$1,300,000,000. In this area we have cut about \$300,000,000 from what we were

originally planning a year or so ago, but the amount is still very large.

The fact is that we are adding capacity faster today, in relation to the growth we foresee in the months ahead, than we have done for quite a while. We are sure the capacity will all be used, but some of it will not be used immediately. In short, we have left in our program of expenditure for growth every dollar good judgment can justify.

This program is doing a great deal to hold employment up. We now have more than 760,000 people at work in the Bell System. This is less than 5 per cent below last year, and the larger part of the adjustment has come about through resignations and retirements. As a matter of fact, we have thousands more at work today than at the end of the boom year of 1955. Let me point this out also: Back in 1949, when business fell off, our employment declined nearly 10 per cent. The story today is nothing like that and the reason is simple. At that time our earnings were at a low ebb. Today we are in better shape financially to do the things that ought to be done and that keep people working. This is clear evidence that financial strength and good health benefit everyone.

In 1959 we intend to keep on with our modernization program at a normal rate. Expenditures for growth will be keyed to the prospects ahead as carefully as we can gauge them. As of this moment, it is not possible to make an exact estimate, but our construction expenditures for 1959 will probably be in the \$2 billion range, or close to it, and that is a very big program no matter how you slice it.

Our growth is not automatic, of course. It comes from research, development, marketing, and door-to-door sales effort. We have increased and intensified all these. The Bell System is spending more than \$90,000,000 this year for research and development work—more than ever before.

In recent years, progress in our research has had a tremendous effect on progress in our services. Let me give you a few examples:

Long distance telephone cables are now in service across the oceans. They improve the service and this brings greatly increased usage.

Microwave radio relay systems make possible expansion of the

long distance telephone and television network at less cost than would otherwise be possible.

Direct distance dialing is in the process of being extended all over the country.

New telephone instruments are giving a big boost to the idea of complete communication service for home and office. For example, from a standing start four years ago we now have in service six million color telephones.

What we call dataphone service is now in its infancy. This makes possible the fast, convenient transmission of all kinds of business data simply by placing a telephone call through the regular telephone network.

We are doing more and more to shorten the time between development and design of new instruments and their introduction into actual use. We are testing the market for new kinds of instruments and for new office, farm, and home communication systems. We are studying the special needs of different industries so that we can develop and design service to fit their particular situations.

HARD SELLING

We have more than 6,000 full-time salesmen aggressively selling the business market. This force is growing—not going down. Sales effort is also a regular part of the work of many more thousands of telephone employees, including those in our business offices and our telephone installers and maintenance men.

We call on companies to show them how to use more long distance service to their own profit. We visit large and small businesses to help them improve their telephone arrangements. We are out in force selling the value of Yellow Pages directory advertising.

So we are getting new and improved instrumentalities and we are out selling them hard. Two examples:

This year we are actually *increasing* the number of home telephone extensions sold in proportion to the number of main telephones installed.

We expect sales forces promoting long distance usage to produce some \$75 million in additional annual revenue, compared with \$60 million last year.

We also think this is an excellent time to build our human

resources for the future. We shall recruit 1,500 or more college graduates in 1958. We are asking many managers at higher levels in the organization to study some of the possible future problems of our business. We are training engineers in new arts of communications built around transistors and related devices. Western Electric, our manufacturing and supply unit, is proceeding with an engineering training program that is about the equivalent of running a college with 1,000 students. It is also developing plans to establish an engineering research center.

WORKING WITH SMALL BUSINESS

Let me just mention, too, that Western Electric this year will purchase goods and services in the neighborhood of a billion dollars from other companies. Last year Western did this kind of business with more than 33,500 firms all over the country—nine out of ten of them small businesses employing 500 people or less. This year the facts and figures will not be far different.

To summarize:

We are going ahead with a big program to the limit good judgment allows.

However, we do not think we should proceed on a "make work" basis, or deliberately overbuild capacity. That would only make less work for the future.

We think modernizing our plant at a normal rate gives the economy the advantage of continuous improvement in productivity.

We are stepping up research and development.

We are intensifying sales effort all through the organization.

We are continuing broad training programs, and hiring college graduates.

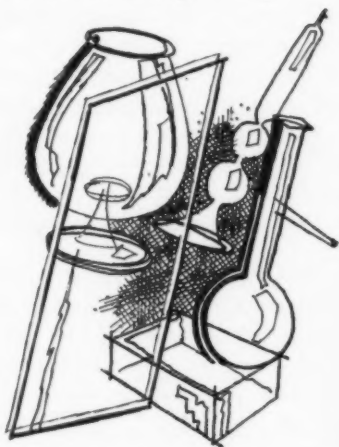
PROFITS MEAN PROGRESS

Finally, we are determined to maintain our financial good health, because only by so doing can we serve the country well today and in the future. I have great confidence in the future, but it rests on the conviction that we must, can, and will get a proper understanding that adequate profit is the foundation of progress in our free enterprise system.

"The public will buy if industry will offer new, attractive, and useful merchandise. It is industry's responsibility to determine the needs of the public and then to do something about them."

CORNING GLASS WORKS

■ William C. Decker
President
Corning Glass Works



OUR COMPANY, the Corning Glass Works, is not large enough to influence the economy appreciably. However, in these recession days, we have had some unusually good results in one division of our business, our consumer products division. I hope the case history of what we have accomplished will dispel any notion that lower sales of consumer products are inevitable during a recession.

Last year, Corning Glass Works sold \$159 million worth of goods. Most of that total was in industrial goods—products we sell to other manufacturers. We accept the responsibility of trying to create better values in such products, but normally that requires considerable cooperation in many areas on the part of our industrial customers.

The time required to develop new or improved products is generally long. The sales of our industrial products are down today as compared with a year ago.

But we also have a consumer products division that manufactures and sells such items as Pyrex brand cookingware, beverage ware, and tableware. In this operation, we *do* control the design and styling of our products.

Company sales for the first quarter of 1958 were up 4 per cent,

due largely to a 14 per cent increase in the sale of our consumer products. The month of February was the biggest single month in the 30-year history of the consumer products division.

How was this accomplished? First, we improved the appearance and usefulness of many products in our line. And then we merchandised these new products—as well as other products which had not been changed—as aggressively as we knew how.

As an example of this program, let me tell you about just one new product—our Cinderella bowl set. For the past ten years one of our most popular consumer items has been a mixing bowl set, but its sales have gradually been falling off. So about a year ago we decided to see how we might improve the product and increase sales.

One of our product designers moved into the test kitchen of our home economics department and spent hours actually using the bowls—mixing dough, stirring batter, scrambling eggs. He came out with plaster models of bowls which he felt were easier to use, to manipulate, to pour from.

Another product designer prepared a series of decorations for the bowls. A number of different models with many different decorations were placed in our opinion center located in the Corning glass center, and thousands of visitors were asked to express preference as to shape, size, color, and decoration.

From that test, we picked the style selected by the majority and produced a number of bowl sets. They were placed in the homes of 200 consumer panel members who used the product in their kitchens for six to eight weeks. Housewives told us what they liked—and didn't like—about the new product.

Further improvements were made and then we placed production samples on test sale in two different cities. The results were satisfactory, so full-scale production was scheduled.

SELLING THE NEW PRODUCT

Then the merchandising operation began. Sales executives from headquarters at Corning presented the new product at district sales meetings throughout the country. Salesmen were given a sample kit and a sales folder and were advised as to the best way of selling their distributors.

These salesmen then called on 350 distributor buyers and built displays for the new product, demonstrated the sales aids, and outlined the advertising program. Incidentally, the 40-hour week has been abolished for our salesmen for the duration of this recession. Some 7,000 distributor salesmen then called on 60,000 retail outlets, where they took orders and helped schedule store promotions.

Meanwhile, two different advertising campaigns were under way. The first was in the trade magazines distributed to retailers and wholesalers; the campaign described why it would be to their advantage to stock and sell this product. The second campaign was placed in the women's shelter magazines about 90 days after our salesmen had started to sell to distributors.

At the same time, our home economists were talking with their counterparts in the larger department stores, with communications media, and with the public utilities.

The results? The Cinderella bowl set has proven to be the best selling new product ever marketed by the consumer products division, even though the program was being carried out as the recession developed. The momentum of the introduction of this item plus six others also helped raise the sales of our old products which had not been changed. Division sales are 14 per cent ahead of last year—and last year was the best in the history of the division.

In short, we did not just ask the housewife to buy our product. Instead we first determined what she wanted, then we produced a product to her specifications, and finally we pushed the product as hard as we could.

A ten-inch all-purpose dish for range-top use and three smaller sauce pans were put through the same stages of product development as the bowl set. A month ago these products were placed on test sale. With almost no promotion, sales have been 20 times greater than any item previously tested.

These examples illustrate one important fact: The public will buy if industry will offer new, attractive, and useful merchandise. It is industry's responsibility to determine the needs of the public and then to do something about them.

By fulfilling this responsibility as well as by doing a real old-fashioned job of intelligent merchandising and hard selling, we will be helping to put people back to work and restoring prosperity.

"We look upon the present as a favorable time to construct new buildings at lower cost, to employ high-caliber people, and to obtain financing on more favorable terms than have been available in recent years."

JEWEL TEA CO., INC.

■ Franklin J. Lunding
Chairman of the Board
Jewel Tea Co., Inc.



THE RETAIL FOOD INDUSTRY has been a salient of strength in the present general business recession. In the first quarter this year, consumer spending in retail food stores was at a rate of \$50 billion per annum, almost 9 per cent ahead of a year ago. This record amount exceeded consumer spending on housing, automobiles, and all other durable goods combined. This acceptance by the public of the offerings of food stores has meant expanded activity for numerous large segments of our population. Employment in all food retailing totaled approximately 1,550,000 in March, up nearly 40,000 from a year ago.

Food retailers are in reality the food handlers of America, purchasing food and also other commodities in large quantities, and

moving these through modern one-story warehouses to the storage rooms and shelves of the country's supermarkets and stores, and, finally, into the hands of customers. A typical Jewel retail unit in Chicago, for example, handles approximately 125,000 pounds of merchandise a week.

NO SLOWDOWN IN FOOD

The tremendous tonnage handled by retail food stores is reflected in greater activity for those serving food retailers and wholesalers. Those benefited include not only those employed in food manufacturing, but also those supplying services to the food industry—such as electric and gas utilities; landlords; laundries; suppliers of paper and other packaging materials; makers of shelving, checkout counters, refrigeration equipment and other machinery; and last, but by no means least, government at the local, state and Federal levels. Along the line, traffic is generated for transportation and trucking agencies, and ultimately it reaches back to the farmer and those who supply him, such as the fertilizer and farm-equipment companies.

In the first quarter of this year, the annual rate of net farm income was \$13 billion, an 11 per cent increase over a year ago. It is significant that commodities not under direct government price supports—such as beef cattle, hogs, eggs, fruits, and vegetables—are doing much better in spite of the current downward adjustment in economic activity than those farm products that are subject to government support programs and acreage controls.

A clue to the reason for record food sales is to be found in the fact that the Retail Food Price Index of the Bureau of Labor Statistics, even now, stands at only 120.8 per cent of the 1947-49 average, which is below the level of the entire consumer price index on all items representing the cost of living. Thus, food has increased less in the past ten years than many other commodities. Comparatively speaking, food is still a bargain.

It is certainly true that we all have to eat. But we could eat for less than we do, if we chose to do so. A market basket of food requires the expenditure of a smaller share of income today than ten years ago, and much less than before the war. Before World War II, people spent 23 per cent of their income for food. Ten

years ago, the same foods cost 20 per cent of income. The same market basket can be purchased at today's prices for only 17 per cent of income. Expressed another way, one hour of work will buy two pounds of steak today, compared with 1 $\frac{2}{3}$ pounds ten years ago.

But consumers have apparently found food so attractive that, instead of reducing the share of income devoted to food, they have actually increased it. According to preliminary estimates, 26 per cent of income was spent on food in the first quarter of this year—at least 50 per cent more than necessary to maintain prewar standards of convenience and diet. In other words, as pointed out recently by Professor Herrell De Graff of Cornell University, about two-thirds of present food expenditures are for the equivalent of the prewar diet, and one-third is spent on increased amounts of such preferred foods as milk, meat, and eggs, and for additional food services.

ADVANCES IN EFFICIENCY

Advances in productivity among all associated with the food industry have contributed to making food a bargain. The advances in farm productivity are becoming well-known. In the last ten years, output per man hour on the farms has increased by nearly 85 per cent, compared with 30 per cent in nonfarm activity. Transportation agencies have also made extensive improvements in their operations. Ton miles per train hour on the railroads are up 19 per cent in the past five years and 48 per cent in the last ten. Similar stories can be told for manufacturers and food handlers at both the wholesale and retail levels. Output per man hour in food stores, for example, has increased approximately two-thirds since 1939, or substantially more than the indicated 46 per cent gain in output per man hour in all nonfarm private business.

An important factor in the above-average gain in the efficiency of food-handling has been the development of the supermarket, founded on the self-service or self-selection principle—one of the first examples of "do-it-yourself." And the spread of self-service still continues. Late in 1952, the self-service handling of meat was introduced to the Chicago-area food stores, following the signing of a contract with the meat cutters' union permitting this practice. In the ensuing five years, output per man hour in Jewel meat

markets in the Chicago area has risen by 54 per cent. This increased productivity makes it possible to cut and prepare meat for sale to customers at low cost while still paying high wages to meat cutters. A journeyman meat cutter, for example, earns \$2.70 an hour, or \$108.00 for a 40-hour week, not counting fringe benefits. People of this high caliber are necessary to meet the exacting demands of customers.

IMPROVING THE PRODUCT

Beyond the improvement in the efficiency of growing, transporting, processing, and handling of food—all of which have contributed to making food a bargain by reducing costs—there lies another area of development that has contributed to the attraction of food. This has to do with the vast improvement in food products and their packaging, to meet the desires of consumers for better and more nutritious foods, with greater variety, prepared in ways that will save time and work in the kitchen. It is estimated that time spent in the kitchen in preparing meals now averages less than half the time required 30 years ago. Much of the drudgery of kitchen work has been transferred to the store or the factory, where it is performed to a large degree automatically.

Product development has been especially rapid since World War II. Take the potato, for example. Today we count 19 different ways in which potatoes can be purchased in Jewel Food Stores. As another example, per capita consumption of chicken this year is expected to be 40 per cent higher than it was ten years ago, and nearly double the per capita consumption before the war. But the chicken of today is a vastly different product than it was years ago. The quality of the product is more uniformly high, and it is sold cut up and ready to be placed in the frying pan. It can also be purchased already cooked in a variety of table-ready dishes if the customer so desires. The same is true of fish.

These are but examples of developments in the rapidly changing food industry. All of the diverse elements of the industry have made their contribution—in methods, refrigeration, packaging, transportation, and handling at the wholesale and retail level—each designed to bring food products to the consumer at low handling costs, in better condition, and in easier form to use.

The demonstrated response of consumers to the efforts of the food industry to create real values makes us in retail food distribution confident that continued efforts in this direction will be reflected in increased sales dollars. Accordingly, we at the Jewel Tea Co., Inc., the eleventh largest food chain in the country, are planning not only to go forward with our growth program, but to accelerate it at this time. We look upon the present as a favorable time to construct new buildings at lower cost than was possible even six months ago, to employ high-caliber people who will be needed to guide and service our growth program, and to obtain financing on more favorable terms than have been available in recent years.

Specifically, Jewel is planning to open a minimum of 35 new supermarkets in 1958, or $2\frac{1}{2}$ times the number opened in 1957. In addition, we will construct a 200,000 square-foot addition to our central distribution warehouse, making this the largest distribution center for nonperishable merchandise of which we have knowledge. Total expenditures for land, buildings, and equipment to complete this 1958 program will be nearly \$18 million—more than double the amount spent for such purposes in 1957. We estimate that our 1958 program will create 1,500 new jobs, an addition of 10 per cent to the total employment of the Jewel Tea Company.

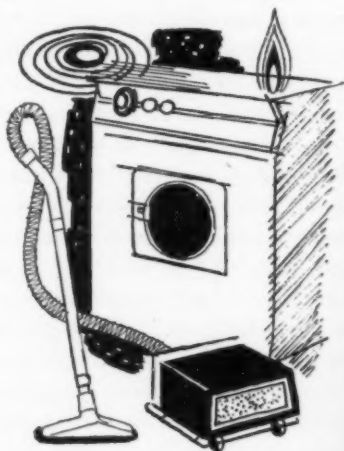
The food-chain industry as a whole is going forward in 1958 with an expansion program. The food chains expect to build some 2,000 new supermarkets in 1958, and 1,700 present stores will be remodeled. It is expected that this expansion of facilities will create approximately 50,000 new jobs in our industry.

These figures speak for themselves as to the optimism with which we at Jewel and the food-chain industry in general view prospects for the future. Our optimism is based on this firm belief: The present recession will be followed by a resumption of growth in our economy, and customers will continue to respond favorably to the creation of greater values in production, distribution, and handling—values keyed to the low-cost movement of vast tonnages of food into consumption. We intend to support this confidence in the future by making shopping even more pleasant and convenient, and by further reducing the time needed to perform the task of food preparation in the home.

"In the search for the magic formula that will solve our problems, we've lost sight of the fact that the fundamentals of our businesses comprise our true strength and are the things on which we must focus with increased vigor when times become uncertain."

WHIRLPOOL CORPORATION

■ Elisha Gray II
Chairman of the Board
Whirlpool Corporation



WHIRLPOOL is a company whose activities are solely dependent upon the durable goods industry. It has been said that this is a durable goods recession, and I think that there is a lot of accuracy to that label. Today, with our high standard of living, the average family is able to defer about 40 per cent of its purchases for a considerable period of time, without actually reducing its standard of living. This is because so many of the family expenditures are not for day-to-day necessities and because much of the durable equipment of the home has a long useful life and can be made to do for another year or so. Consumers have chosen to defer their purchases of durable goods rather than commit themselves for added debt at this time.

Actually, nationwide appliance factory shipments for the first quarter of the year were off 21 per cent. At retail, however, sales to final consumers were only off 10-12 per cent for the quarter, which, of course, indicates that the inventories in the distribution

system are being reduced at this time. In my opinion, this process of inventory liquidation has about leveled off now, give or take thirty days. The process is already fairly well completed at the retail level.

Now, if consumers simply have not chosen to buy the new models, you can only conclude that it's because the merchandise we manufacturers have offered has not been attractive enough. Therefore, our problem is to review the basic elements of our merchandising format and see what it takes to stimulate customers to buy in the present, somewhat uncertain, climate which is adversely affecting their appetite. In other words, I think we must consider ourselves as being primarily at fault, if we have failed at this time to persuade the customer to buy our wares.

FOCUSING ON FUNDAMENTALS

Accordingly, my company has tackled the problem by completely reviewing the merchandise we are offering—its mechanical design, its price, its quality, and its method of sale. We don't believe there is any easy formula or gimmick that will suddenly bring about important changes in our sales trends. Certainly, we have had every imaginable kind of promotional presentation over these past months. For instance, I believe it is a fact that by selling appliances today you can win yourself, as a prize, a trip to almost any place in the world. But these are not fundamental things.

Our efforts must now be focused on the fundamentals.

First, as to the *present* product. My company has re-merchandised, so to speak, the line of goods that we are offering. In some cases, this involved changing the merchandise assortment, adding more powerful attractions in certain price brackets in which our line was not properly represented. In other cases, our past market experience told us that we had over-designed some of the features we were offering—I refer particularly to the complexity of some of today's modern home appliances—and our review has brought us back a little to products which are simpler to operate, more direct in their appeal to the customer. Perhaps most important in the merchandising review, we have felt that we should provide a more sensitive response to the needs of various markets throughout the country. Whereas our business has basically been dedicated

to mass production of a limited number of models, we're finding that one can appeal more effectively to a customer's taste in Pittsburgh, for example, with certain models of automatic washing machines, whereas in the California market we'll do better with other models. Accordingly, we've been developing a flexibility which permits the distributor in Pittsburgh, in effect, to design his own machine—not in its basic concept of transmission, water system, etc., but in the optional features which, after all, are the things he sells to the customer. We think that this is just one more logical step in trying to give the customer what she wants.

In the presentation of merchandise to the customer, we are changing the emphasis of our advertising to bring it a little closer to the point of sale. In other words, we think in times like this one will get the maximum mileage from point-of-sale advertising that is as close as possible to the customer and the dealer. The institutional type (which has an important role, of course, in the long-range company planning) is not effective in stimulating today's sales, and therefore I find in our promotional thinking the swing to the local, direct, "buy today" appeal.

TIGHTENING UP THE SHIP

One of the basic functions of management, of course, is to operate a company at a profit. When one experiences a decrease in sales, it's just plain good business to review the level of expenses and get the operation in line with the reality of the day. Accordingly, we have tightened up our ship all along the line. We have stopped expecting the next week's sales to suddenly rebound to last year's level and we have realistically budgeted our operation throughout the corporation so that at the present level (which, after all, is still very high indeed) we should show a profit. This adjustment process, of course, is a difficult one in any business, but there are some very beneficial by-products. We find that the organization tackles the job with more vigor than ever, and there is a certain atmosphere of complete confidence that our business is going to make a respectable showing under these new circumstances. (And if confidence is important now for the buying public, it's twice as important for the internal fiber of your business.)

In the operation of our business over the past 15 years, it has

been our practice to discuss in full detail with every member of management—on a quarterly basis—exactly how the business is progressing. At these sessions of small groups of managers, which are usually conducted by an officer of the company, we have an open exchange of questions and answers—with no holds barred. Therefore, it was perfectly natural for us to discuss at this time the present facts of life and to explain to our men, with complete forthrightness, the steps which we proposed to take to adjust our operations to conditions.

It is interesting to me that in this particular round of quarterly meetings (which, incidentally, I personally conducted), in which we outlined the organizational adjustments, as well as merchandising adjustments, that were to be made, we received greater spontaneous response and enthusiastic approval than for any of the subjects that I can recall discussing in the past. It simply meant to me that our people are perfectly conscious of the hard economics of business life and are eager to put their efforts into a plan that makes constructive sense for their particular business, even if at the moment it may be a little painful.

Now, in this tightening of the ship we have been selective, of course. We feel that it would be sound policy to make some exceptions of some activities which are essential for the long-range health of the business, even though they do not necessarily contribute to today's profits. In this category, I particularly have in mind engineering, because in a broad sense engineering and creative design will become the most potent future factors in persuading the customer to buy. If the new model is truly better than the old one in function and value, the customer will replace her present appliance with this latest creation of the engineers. If not, she will make the old one do.

Now as to prices. It is essential that the company remain sound, and since the profit margin of the appliance business has crept drastically close to the break-even point we do not feel that the avenue of further general "across the board" price reduction is available to us at this time. In this connection, it is very interesting to note that, according to the U.S. Bureau of Labor Statistics (1947-49 base), the prices charged for household appliances in general have declined about 14 per cent since 1947, whereas, for example,

the price of steel has increased 91.5 per cent, the price of food 20.3 per cent, and the price of automobiles 42 per cent.

INVESTMENT IN NEW PRODUCTS

Our most important effort, I believe, and the one which shortly should be most productive, will be our work on new products. And here I return to the importance of engineering. It seems to me that the continued health of the appliance business depends upon the speed with which new and better products are created. That is to say, the rate of obsolescence of present equipment will be a prime factor in tomorrow's sales. Accordingly, since January 1 we have invested rather important sums of money, not only in the creation of new products, but also in facilities and tools necessary for their production. Now, of course, when one feels the need for new products to bolster uncertain sales, you can't simply call up the engineering department and say, "What's new today, boys? Let's get it out, because we need more business." If you haven't built a pretty broad base of creative research in recent years, you won't find much in the cupboard now. But it is possible in many cases to accelerate the plans that you already have in the works and bring forward the introduction dates of attractive new products.

In our own case, the best illustration I can give you is the important program we have launched in the gas appliance field. Although we have made certain gas home appliances for over ten years, we became convinced last fall that the field was, in reality, a neglected area of appliance engineering and manufacture.

So here emerged a business decision of the classic kind. In the face of a soft appliance market, do you play it safe and defer your push and your gamble until customers' appetites are more robust, or do you seize the opportunity and press forward? We chose the latter course. In fact, in our minds, the bold course is the safer one.

Perhaps the keystone of the program is the domestic gas refrigerator. Such a domestic refrigerator has been manufactured in years past by another company, and there are approximately 3½ million satisfied users of these refrigerators. Due to business circumstances, this refrigerator went out of production some time back, and it has been our feeling that to restore this appliance to

the market would be a constructive move and would add to the general volume and activity in the refrigerator business.

Accordingly, in the past four months, we have invested about 10 or 11 million dollars in this program and have acquired added facilities of three-quarters of a million feet of floor space for the production work. Manufacture of this product is currently employing 725 new people and we hope—from the employment point of view—this will become an even larger force as the months pass.

To flank this product, we have introduced new models of gas ranges and that important new home appliance, the gas-fired washer-dryer combination. These and others are to be marketed as the first all-gas kitchen under one nationally advertised brand name.

Supporting this immediate action, we have more than tripled our engineering work on gas appliances, and we are hopeful of having ready by the end of this year a significant new concept in gas cooking.

NO MAGIC FORMULA

Let me summarize by saying that my company is brushing aside the fluff and re-examining the ABC's of our business. Very frequently you will find that some of the basic things upon which you built your business have somehow gotten lost in present confusion and are not being done at all. Somehow, in the search for the magic formula that will solve our problems, we've lost sight of the fact that the fundamentals of our businesses comprise our true strength and are the things on which we must focus with increased vigor when times become uncertain.

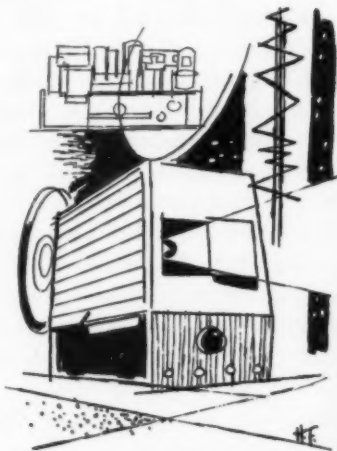
Therefore, Whirlpool is doing three things. First, we are tightening up our belt. Second, we are presenting exciting new products and new models to the customer in an attempt to entice her to unlatch her purse strings and buy our wares. And third, we are presenting these new things to her with a more sensitively conceived plan to appeal more effectively to the characteristics of the local market.

Our organization is not panicked or hysterical about this current problem. We are concerned, of course, as we should be, and we are redoubling our attentions to the fundamentals of our business with vigor and the expectancy of future successes.

"The biggest single contribution any of us can make to the health of the nation today is the improvement of his own business."

BELL & HOWELL COMPANY

■ Charles H. Percy
President
Bell & Howell Company



THERE'S AN OLD SAYING that everyone talks about the weather, but no one does anything about it. But when it comes to the economic climate, this is not—and should not be—true. Something is being done—and more must be done.

Before discussing what one company—Bell & Howell—has done in an attempt to improve the present economic climate, let me make it clear that we by no means have all the answers. Nor is there a magic formula here, except, perhaps, the one of *action*—of *doing* something instead of waiting for something to happen.

If you were to ask me whether what we are doing at Bell & Howell is in our own interest or in that of the nation as a whole, I could find no way and no reason to separate one from the other.

Certainly, we are concerned with the welfare of the nation, as any responsible citizen must be. And, if ever a choice must be made, there's no question but that the welfare of the nation comes ahead of our own.

Yet, we do not live in a "welfare" state where our well-being, or even the well-being of the state, is in someone else's hands. On the contrary, the prosperity we want for ourselves, our children,

our community, and our nation is indivisible. And it is something we must create for ourselves.

The fact is that the single biggest contribution any of us can make to the health of the nation today is the improvement of his own business. That is why we at Bell & Howell have been taking major steps to strengthen our position in the market by producing better values, and doing it fast. We think this is a very good time to do so.

We are grateful that, for twelve years, we have ridden the crest of an expanding wave of prosperity, with unprecedented sales based on the highest standard of living any people have ever achieved. As a photographic manufacturer, we've been part of a growing industry. Because we worked hard and our products were good, our company grew even faster than industry in general, and our industry in particular. But essentially, we have all reaped the benefit of an extremely fair and sunny economic climate in the post-war decade.

Now, we want to do our full part in helping bring back to America the economic climate of continued growth and development. In this we are under no illusion that any one company, of itself, can reverse a trend. Nevertheless, we are confident that if enough businesses move decisively into positive and forward-looking action, the growth of our economy will soon resume its upward movement.

In taking the following steps, we recognized we were inevitably taking some risks. But after all, risk-taking is a function of business management. If we, as American businessmen, don't have the fundamental courage of our convictions about our economic system of risks and profits, who *will* have the courage and convictions necessary to preserve our way of life?

THE DECISION TO ACT

We cannot believe in profits without believing in risks. So, at Bell & Howell, we've *taken* the risks. And we feel they are, in every way, justified by our objectives of maintaining or increasing employment, sales, and earnings.

Last year, when the dip in general business activity became apparent, we made a basic decision that can be stated simply,

although it took a good deal of determination to see it through. Our long-range planning of new and improved products is done on a 60-month basis, subject, of course, to continuous review. We had three possible choices:

First, we could stick to our carefully laid plans for new-product development—plans made in a period of expanding markets.

Second, we could slow up our timetable in order to "wait and see what happens." If we did that, we would, of course, slow up our growth and perhaps our increase in market position.

But there was still another choice: We could gear ourselves for a maximum effort. We could speed up the development and manufacture of these new products; bring them into the market much earlier than originally planned; step up our selling impact on the consumer and trade; reduce selling prices where we could—and so, get the full benefit of these new and better consumer values, when we need them most to maintain our sales and profits.

We decided on the third course of action: to *move . . . and move fast*. We decided not to drift downward with the general business recession if we could help it.

We therefore undertook a two-fold program, which can be summarized in two short sentences:

1. We decided to *maintain* and in some instances *increase* those expenditures that create new sales and build for the future.
2. We undertook to further *reduce* and *eliminate* costs that add very little to the value of our products or future progress.

We had nine new Bell & Howell products in research and engineering at various stages of design. Many were not scheduled for production until the end of 1958 or early 1959. With the enthusiastic cooperation of our engineering group, this calendar of schedules was moved ahead so that all nine new products, one of these a complete product line, could be introduced in March, this year, instead of next year.

In terms of dollars, product development is a creative expense. Our 1958 expenditures for research and development will be higher than those of 1957, previously our highest year, for we feel that to cut our expenses here would affect our sales for the next five years.

We did more, however, than introduce new products. We also

decided, as a sales-stimulant, to reduce substantially the price of one of our fastest-selling lines: the 8mm electric eye movie cameras.

The first such camera was introduced by us as recently as July, 1957, at a retail price of \$169.95, with just one lens. In March of this year, we brought out four new models of the 8mm electric eye camera, ranging in price from \$99.95 to \$159.95.

This was a reduction in price of about 33⅓ per cent across the board, yet the new line has a number of improved features. For example, the top model of the line, which has a three-lens turret, is now priced ten dollars *below* the single-lens 1957 electric eye camera.

At these lower prices, we knew we would have to sell one-third more cameras to reduce our manufacturing costs to the point where we could show a satisfactory profit on this line, which had been a major factor in 1957 sales and earnings.

These lower prices also meant we would have to commit ourselves to manufacturing the additional cameras well ahead of time, to be ready for the increase in 1958 sales we hoped would result from stepped-up advertising, publicity, and the new low prices.

This decision to step up our volume called for an expansion of our manufacturing facilities, to produce the additional cameras as well as the eight other new products rescheduled for March of this year. Again we had to move, and move rapidly. We leased 120,000 additional square feet of space in a nearby plant—incidentally, on a more favorable long-term lease than could have been secured a year before. Moving our warehouse, shipping, and other departments to this new space gave us an equivalent area of added manufacturing space in our main plant.

But we didn't stop there. New machines to automate all possible manufacturing operations also come within the category of creative spending. With these, our spending for capital equipment in 1958 will represent a 67 per cent increase over 1957.

INCREASING THE SELLING EFFORT

Then we faced the problem of selling our additional product to dealers and the public. We increased our spending here, too, tripling our advertising and promotion expenditures in the second quarter of 1958. Again, we found it a very good time to be buying

in the open market, for we purchased valuable network television time on four major shows at less than its original cost.

Our increased advertising was preceded by an intensive product publicity campaign, with articles and interviews on the new products in newspapers and magazines and on radio and television stations across the country, starting with the introduction date of March 19.

An intensified selling program includes contests as added selling incentives. Our "Partners in Profits" contest for dealer salesmen provides prizes of Bell & Howell stock—a total of 450 shares. Our district sales managers receive points for each dealer salesman entering the contest, plus additional points for increased sales. Each of the three top winners will earn a week's expense-paid vacation for himself and his wife at an Arizona resort, while his territory is covered by one of his bosses.

To encourage dealers to tie in with our sales-creating national advertising, additional contests offer cameras to both newspaper and television station representatives for the most imaginative dealer tie-ins in window displays and local advertising. This means that newspaper and television station salesmen will be calling on our dealers to develop tie-ins at the local level.

Traveling sales training programs have also stepped up sales with intensive "how-to-do-it" training sessions for dealer salesmen in 17 key cities during the month of May. And our Retailers' Advisory Council, elected each year by fellow dealers in their geographic areas, has provided a particularly valuable check upon our marketing policies and programs this year.

REDUCING COSTS

In order to minimize the risks of our expanded manufacturing and sales activities, all divisions of the company joined in an intensive cost-reduction program.

At a meeting of our entire executive group, all supervisors, from foremen on up, were given the facts—our plans, what we expected to achieve, and the risk involved. Then each man was asked to participate creatively in our program to fight the recession by reducing costs and increasing productivity in his own operation.

The meeting was followed by a letter mailed to each of our 4,000

employees at his home, a letter in which I outlined the program and asked the participation of each member of our organization.

As we've so often found in the past, Bell & Howell people responded with enthusiasm—and with action. In purchasing, for example, our buyers sought the help of suppliers in reducing prices. They found that when they talked about increasing orders and standardizing parts, they were welcomed with open arms. Substantial cost reductions were achieved—and in all of them we insisted that quality be maintained or even increased.

Throughout our engineering and manufacturing divisions, men threw away preconceived ideas of what could and could not be done, working together to meet deadlines in the accelerated new-product development program. Design engineers and production engineers worked closely together so that necessary changes were made in the design stage, eliminating costly and time-consuming changes in pilot production and final production. Throughout the company, executives of every division worked longer and harder, adopting a 60-hour week to make sure that the 40 hour week in the plant could be maintained.

As an added incentive to our over-all program, management salary increases are being granted in 1958 on a contingent basis, to be paid retroactively at year-end only if employment stability is maintained and sales and earnings are satisfactory.

RESULTS OF THE PROGRAM

This accelerated program has resulted in encouraging gains to date, with sales, earnings, and employment up in the first quarter of 1958. Comparing the first quarter this year with the first quarter of 1957, we show a 21½ per cent gain in sales, a 23 per cent gain in net earnings, and a 4½ per cent gain in total employment.

As for the year as a whole—who can say? But one thing I've promised our employees, our management, and our shareowners—we'll not retreat without putting up a very hard fight! As has been aptly said, often the difference between victory and defeat is whether a foot soldier in the ranks shouts, "we'll lose," or "we got 'em."

In summary, then, here are the six specific steps we took at Bell & Howell to strengthen our own position:

1. *We accelerated the introduction of new and improved products*, in order to capitalize on their profit-making potentials.
2. *We reduced prices* where we could, to offer consumers a real reason for buying now and to insure our own sales volume.
3. *We improved our manufacturing facilities* to reduce our production costs.
4. *We stepped up our selling effort* through increased advertising and merchandising activities.
5. *We reduced all costs* that did not contribute to the value of our products and the future of our business.
6. *We created new management and employee incentives* to help make 1958 a good year.

What we have done, many other companies can do and have done, each in its own way. And this is a very good time to do it.

CORPORATE PUBLIC RELATIONS

In a time of business contraction, we could conceivably talk ourselves further into a depression by spreading fear and uncertainty. Fear and uncertainty are more contagious than the Asiatic flu—and can do a lot more harm!

When a company has good news in any of its divisions, it is well worth taking the trouble to tell it as widely and as effectively as possible. This means making it available to editors in well-documented form, backed by facts, figures, and specific comments.

In our plans, our actions, our relations with the public, it is a time to "let our light so shine before men that they may see our good works . . ."

The most significant characteristic of the American businessman is his willingness to exchange ideas. In times such as these, we need to do more talking together—not about how serious things are or could become, but about what we are going to do to accelerate our progress in the direction of the promising future we know is ahead.

We have the opportunity and the obligation of proving once again that the American system of free enterprise—American businessmen doing things the American way—is the best, the soundest, and, in terms of human well-being, the most successful way of life in the world.



PERSUADING

A primary executive function is to convert ideas into action. How well this is accomplished depends largely on the skill used to transmit plans, ideas and programs to associated management groups.

Because the spoken word is management's most often used, *and often abused*, communication medium, AMA's Course in Effective Executive Presentations fills an important need. It helps the executive bring his speaking skill up to the high level required to complement his over-all management knowledge.

In all AMA activities, accurate, clear-cut communication — aimed at group persuasion — receives heavy emphasis. And verbal exchange of management ideas — skillfully presented — allows members to take advantage of the knowledge and experience of thousands of the nation's top-flight operating executives.



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